Austria	[illegible]	Indonesia	[illegible]	Oman	[illegible]
Bahrain	[illegible]	Iran	[illegible]	Philippines	[illegible]
Belgium	[illegible]	Israel	[illegible]	Portugal	[illegible]
Cyprus	[illegible]	Italy	[illegible]	Qatar	[illegible]
Denmark	[illegible]	Jordan	[illegible]	S.Arabia	[illegible]
Egypt	[illegible]	Kuwait	[illegible]	Singapore	[illegible]
Finland	[illegible]	Lebanon	[illegible]	Spain	[illegible]
France	[illegible]	Lux	[illegible]	Sweden	[illegible]
Germany	[illegible]	Malaysia	[illegible]	Switz	[illegible]
Greece	[illegible]	Morocco	[illegible]	Thailand	[illegible]
Hong Kong	[illegible]	Neth	[illegible]	Tunisia	[illegible]
Iceland	[illegible]	Nigeria	[illegible]	Turkey	[illegible]
India	[illegible]	Norway	[illegible]	UAE	[illegible]

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

BRITAIN
Televising Parliament
Page 10

No.31,005 | Wednesday November 22 1989 | D 8523A

World News

Greeks agree to form all-party government

Greece's political leaders agreed to form an all-party government, headed by an ex-governor of the central bank, Xenophon Zolotas, to rule for the next five months.

A new Cabinet, expected to be a mixture of seasoned politicians and prominent personalities, will not include either Constantine Mitsotakis, the conservative leader, or Andreas Papandreou, the former socialist Prime Minister. Page 20

Indians go to polls

Polling gets under way in India today in a general election which is widely expected to lead to the defeat of Prime Minister Rajiv Gandhi's ruling Congress party. Page 20; Changes ahead, Page 18

UK sets programme

Queen Elizabeth delivered the British Government's busy legislative programme for the next session of Parliament in a ceremony before peers and commoners. The ensuing debate was televised for the first time. Page 10

Modrow warning

East German government announced moves to decentralise the economic control as Hans Modrow, the new Prime Minister, braced the population for "unpopular measures" to curb currency speculation. Page 2

US anti-dumping

US proposed that penalties governments can impose on products imported and sold at unduly low prices should be extended in scope. Page 20

Basque violence

Spanish and Basque political leaders were making frantic efforts to prevent a new outbreak of Basque separatist violence after the fatal attack on Monday on a group of separatist Basque MPs. Page 3

Libyan Opec quota

Libya will demand a higher oil sales quota if Opec raises the group's overall ceiling in talks in Vienna on Saturday, its oil minister said.

Moscow head ousted

Moscow Communist Party chief Lev Zaikov, a hardliner, was sacked at a meeting of the city committee attended by Soviet President Mikhail Gorbachev.

Tibetans arrested

Eight people were sent to labour camps and two others arrested for staging pro-independence marches in Lhasa, the Tibet capital, a Chinese newspaper said. Page 7

Koreas move closer

South Korea accepted all proposals made by communist North Korea over an exchange of family visits. Page 6

More aid for AIDS

Development ministers from the 12 EC nations agreed more efforts were needed to combat AIDS in the Third World.

Colombian drug raid

Colombian army uncovered a communications centre believed to belong to a Medellin drug cartel leader.

Virgin flight delayed

Virgin Atlantic Airways chairman Richard Branson and Swede Per Lindstrand will attempt to cross the Pacific by hot air balloon on Thursday.

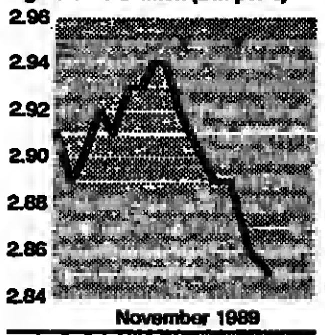
Business Summary

Metsa-Serla of Finland bids £263m for UK Paper

METSA-Serla, leading Finnish forest products group, announced an agreed £263m ($412m) takeover bid for UK Paper, British paper maker. The cash offer is worth 330p a share but analysts and institutional investors suggested UK Paper was selling out too cheaply. Page 21

STERLING: The pound fell to its lowest D-Mark level since early March 1987, despite sales of European Currency Units

Sterling



by the Bank of England. It closed in London at DM2.8500, down 1¼ pfennigs at the close. Currencies, Page 42

S.G. WARBURG, a leading UK investment banking group, surprised the City of London by announcing it had more than doubled its profits in the first half of its financial year. Page 21

MALAYSIAN roads: a plan to develop an 870km network of privately owned roads passed its main financial hurdle with the completion of a Ringgit 2.07bn ($758m) loan. Page 20

RENAULT, French state-owned car maker, announced plans to close its factory at Billancourt, which employs 4,000 people outside Paris, where the company first started production in 1898. Page 2

SONY, Japanese consumer electronics company, reported a 50.4 per cent increase in interim pre-tax profits to Y88.7bn ($620m). Page 25

SAUDI Arabia is pressing ahead with plans to develop a secondary bond market in order to make room for further domestic borrowing needed to cover the Kingdom's chronic budget deficit. Page 26

PINNACLE West Capital, Arizona holding company, disclosed additional large loan losses at Mera Bank, its troubled savings and loans subsidiary. Page 24

JAPANESE machine tools factories across Japan are engaged in their biggest ever retooling programme partly because of the frequency with which new vehicle models are being introduced. Page 7

TEXAS Instruments, a leading US maker of semiconductors and other electronic equipment, is to take a $55m pre-tax charge in the fourth quarter for restructuring costs. Page 24

QINTEX: newly appointed receivers and managers at Qintex Australia obtained bank funding to allow the TV and resorts group to continue operating temporarily. Page 25

SKANDINAVISKA Enskilda Banken, Sweden's largest commercial bank, announced that a new chairman, Bo Ramfors, had been appointed to replace Jacob Palmstierna, who resigned last week over his alleged tax evasion. Page 22

BAA received an undertaking from Cecil Parkinson, the Transport Secretary, thet the British Government will not abandon the special (golden) share that protects the former British Airports Authority from hostile takeover. Page 21

White House and Congress agree to cut budget deficit

By **Peter Riddell**, US Editor, in Washington

LEGISLATION to reduce the US federal budget deficit by more than $14bn was finally agreed yesterday by Congressional leaders and the White House.

The budget deal comes after months of wrangling, seven weeks into the fiscal year to which it applies. Democratic leaders of Congress and the White House compromised on both tax and spending, and both sides yesterday described the bill as "excellent."

But it puts off until next year many difficult decisions on reducing the deficit, and the underlying problem remains unsolved.

The bad feeling generated between leading Democrats and the White House during the lengthy negotiations, especially over a possible capital gains tax cut, means that early talks on a 1991 Budget package are unlikely.

The package meets the target set by the Gramm-Rudman deficit reduction legislation by cutting the deficit to below $110bn in the 1990 fiscal year which started on October 1. It combines some genuine spending cuts, an assortment of minor tax increases and higher federal fees, and an acceleration of some tax payments.

The key to an agreement was the acceptance by Democratic Congressional leaders that spending cuts previously put in place should remain until the first week of February. These cuts, imposed under the Gramm-Rudman legislation because of the failure of Congress to agree a budget, save more than $4.3bn.

Some White House advisers, including Mr Richard Darman, the budget director, favoured keeping these across-the-board cuts in place for the entire fiscal year. This was because they were genuine spending reductions and would also make it less difficult to cut the deficit next year without breaking President Bush's "no new taxes" pledge.

This gap may in part be filled by the large cuts in defence spending now being discussed.

However, Democratic leaders, with the support of leading Republicans, objected to across-the-board cuts because they would fall arbitrarily on valued social programmes.

Mr Marlin Fitzwater, the White House spokesman, said yesterday that the bill met President Bush's demand for at least $14bn in "hard" budget cuts without accounting gimmicks. The deficit reduction amounts to $17.9bn on other definitions.

The proposals include about $5.7bn in additional revenues, with about $2.5bn from accelerated payment of payroll taxes, restrictions on tax benefits available under employee stock ownership plans, limits on tax deductions for leveraged buy-outs, and new taxes on ozone-depleting chemicals. The main spending cuts are to the Medicare health programme in payments to doctors and in farm programmes.

Senator George Mitchell, the Democratic majority leader, said the proposals were "a very strong and effective deficit reduction package."

Democratic leaders and the White House reached a preliminary agreement on the 1990 budget more than seven months ago. This unravelled in response to pressures for additional spending and Mr Bush's determination to force a cut in the rate of capital gains tax. This was successfully blocked by Senator Mitchell, leading to yesterday's compromise, which was agreed as Congress prepared to adjourn until January.

US consumer prices rise, Page 4; Tougher anti-dumping rules sought, Page 20

Dissident Vaclav Havel at his press conference yesterday

Czech Communists hint at compromise

By **Leslie Colitt** in Prague and **John Lloyd** in London

THE hard-line Government of Czechoslovakia yesterday took a first step down the road of compromise by conceding that the ruling Communist Party's role may be negotiable.

Mr Ladislav Adamec, the Prime Minister, told a delegation of leading dissidents that he favoured a "different concept of the leading role of the Party" and non-Communists in the Government.

The talks came as another vast demonstration, which appeared to be at least as big as Monday's 250,000-strong rally, blocked the streets and squares of Prague. In a striking indication of the protesters' new-found fearlessness, thousands of young people lined the balustrade of the National Museum overlooking Wenceslas Square – a magnificent building which was blasted by Soviet tanks in 1968 – and jeered at police cars passing below.

Cardinal Frantisek Tomasek, the Roman Catholic primate, sent a message which was read to the crowd saying: "We cannot wait any longer. We need a democratic government."

Prominent dissidents including Mr Vaclav Havel, the distinguished playwright and the country's most prominent dissident, addressed the crowd from the balcony of the newspaper Svobodne Slovo, undisturhed by police. Mr Havel, who has been jailed on several occasions for his views, was yesterday nominated to the delegation meeting Mr Adanec but was not allowed into government headquarters, participants said.

Two members of the delegation quoted Mr Adanec as saying that the Government might enter into talks with the Charter 77 dissident movement but that he insisted the protests had to stop and that socialism had to remain.

They said that he ruled ont violence against demonstrators and disassociated the Government from the violent police response to last Friday's demonstration.

Meanwhile, the official CTK news agency announced that the General Prosecutor's Office was "investigating the causes of action taken by security forces... and its adequacy." The youth newspaper Mlada Front later said that 142 judges from the Prague district courts had demanded the inquiry.

Last Friday's demonstration was met hy tear gas, unmuzzled dogs and beatings, allegedly resulting in the death of a student.

Rebirth of hope, Page 3

US advisers held after attack on hotel in El Salvador

By **Tim Coone** in San Salvador

FOUR US military advisers in El Salvador were taken prisoner yesterday by left-wing guerrillas in a daring assault on a hotel in San Salvador, the capital.

Last night the White House said military action to protect US lives was not ruled out. The US condemned the attack as a terrorist act and warned that President George Bnsb, who held meetings with his advisers on possible action, felt "very strongly" about his responsibility to protect Americans.

Twenty-nine people were held inside part of the Sheraton hotel complex by the Farabundo Marti National Liberation Front, inclnding the four Americans, one Chilean and one Guatemalan military adviser. No indication was given abont what would happen to them, altbongh the guerrillas insisted they were not hostages bnt prisoners of war.

The hotel, no longer owned by the US chain, is in the wealthy north-west suhurb of the city known as Escalon.

The attack began et 4 am as a guerrilla column moved in under the cover of an electricity blackout to take control of part of Escalon.

Jndging by the gunfire, government troops were once again taken off-guard, pntting up little resistance to the guerrillas' occupation of the suburb

The renewed rebel offensive, after a lull in the fighting, demonstrates that El Salvador's besieged right-wing Government is still unable to control its own capital. The country's stability in the face of the 10-year-old insurgency has been a keystone of US Central American policy, and was one of the elements which sparked US involvement in Nicaragua.

The US yesterday left open the option of military intervention.

A White Honse statement said President Bush who kept closely in tonch, believed "very strongly in our responsibility to protect American citizens. But ws cannot speculate on steps the US or the Salvadoran government may be undertaking or considering at this time."

Mr Marlin Fitzwater, the President's spokesman, later added thet so far aid requests

Continued on Page 20

UK bank to axe 5,000 jobs in drive for profitability

By **David Barchard** in London

TSB, the sixth-largest UK banking group, yesterday announced plans for job cuts totalling more than 5,000 in its retail banking arm as part of a drive to bring its profitability back into line with that of its competitors.

The cuts, which get under way with a reduction of 3,000 jobs over the next 12 months, are the largest ever seen in British retail banking. TSB has already cut the number of its senior management executives – by 50 last month – and introduced sharp cuts in the number of the group's directors last May.

Mr Don McCrickard, chief executive of TSB Bank, said yesterday: "We have to make these job cuts because of the huge cost base we have inherited from the days when the TSB was a federation of more than 70 banks."

About half the jobs to be cut over the next year will go from the TSB's branch network and the remainder from head and regional offices.

The bank expects to save £65m ($101m) a year as a result. After five years, TSB's total retail banking operation will have been reduced to 24,000.

Mr Peter Ellwood, chief executive of TSB's retail operations, said yesterday that the Bifu, the banking union, had accepted the need for job reductions.

He warned that there might have to be some involuntary redundancies. Precise details of who is to go will be made known to TSB staff in the next few days.

TSB also plans to move its retail banking head office from the City of London to a site in the West Midlands, saving a further £10m a year, while its mortgage processing operations will be transferred to Scotland, reducing its costs by another £3m a year.

At the same time, the bank will try to improve its profitability with a £200m capital investment programme. This will be aimed at improving its computer systems and reorganising its 1,600-strong branch network.

Account processing will be shifted out of branches to 80 processing centres, while 800 branches are to be refurbished to play a stronger role in sales.

The aim is to bring TSB's operating costs down to below 65 per cent of its income next year.

Last year, the group's operating costs reached 74 per cent of income, far above the levels of its competitors.

The TSB job losses are the latest in a series of similar cuts by banks and building societies. Early this year, Midland Bank announced that it was cutting its workforce by 2,000. Last month, Barclays, the largest UK clearing bank, said it would cut its workforce by 2,500 over the next four years but without making any redundancies.

Two building societies, Nationwide Anglia and Leeds Permanent, shed 400 and 150 jobs respectively this autumn.

James Buxton writes: Opposition parties in Scotland yesterday renewed claims that the independence of the Scottish part of TSB had been lost in the group's reorganisation.

Financial performance, Page 16; Lex, Page 20

World Bank warns Africa of link between aid and reform

By **Michael Holman**, Africa Editor, in London

THE WORLD BANK today calls on Africa's leaders to become "more accountable to their peoples" and warns that without democratic reforms, many countries' structural adjustment programmes will fail and external aid will fall.

In a foreword to a report which amounts to the most searching examination of Africa's problems ever published by the Bank, Mr Barber Conable, the Bank's president, says the continent's "crisis has continued to deepen." The 300-page report describes the outlook for Africa as "potentially devastating."

In what could presage a link between aid to Africa and human rights on the continent, the report stresses that effective implementation of economic recovery measures goes hand in hand with "better governance."

The comment may well encourage donors to review the terms of their aid to Africa, particularly coming as Western governments are insisting that assistance to Eastern Europe will largely be conditional on political as well as economic reforms.

The Bank maintains its view that structural adjustment policies are working. But it still sounds a grim warning, reinforced with hleak statistics, about the continent's prospects.

"Africa is in danger of being marginalised in its participation in both the world economy – Africa's share in world trade has fallen from 3 per cent to less than 1.5 per cent since 1960 – and in global strategic decision-making, as superpower competition in Africa ebbs," says the report.

The region's economies must grow by at least 4 per cent to 5 per cent annually for only a "modest" improvement in living standards, according to the

Continued on Page 20
Africa in distress, Page 18; World Bank seeks way out, Page 6

MARKETS

STERLING
New York lunchtime:
$1.5695
London:
$1.5665 (1.559)
DM2.85 (2.8625)
FFr9.7075 (9.74)
SFr2.535 (2.545)
Y225.25 (same)
£ index 87.2 (87.5)

GOLD
New York: Comex Dec
$404.4 (399.3)
London:
$404.25 (396.25)

N SEA OIL (Argus)
Brent 15-day Jan
$18.625 (18.6)

Chief price changes yesterday: Page 21

DOLLAR
New York lunchtime:
DM1.814
FFr6.1805
SFr1.614
Y143.545
London:
DM1.82 (1.836)
FFr6.1975 (6.2475)
SFr1.6175 (1.632)
Y143.75 (144.45)
$ index 69.6 (70.0)
Tokyo close: Y144.43

US LUNCHTIME RATES
Fed Funds $8\frac{7}{16}$%
3-mo Treasury Bills:
yield: 7.88%
Long Bond:
$102\frac{17}{32}$
yield: 7.90%

STOCK INDICES
FT-SE 100:
2,185.1 (+2.0)
FT Ordinary:
1,731.9 (−2.2)
FT-A All-Share:
1,098.59 (−0.0%)
New York lunchtime:
DJ Ind. Av.
2,622.44 (−9.60)
S&P Comp
338.42 (−0.93)
Tokyo: Nikkei
36,059.87 (+166.29)

LONDON MONEY
3-month Interbank:
closing $15\frac{1}{8}$% ($15\frac{3}{32}$)
Liffe long gilt future:
Dec $90\frac{13}{16}$ ($90\frac{19}{32}$)

MARKET REPORTS: CURRENCIES, Page 42; BONDS, Pages 26, 27; COMMODITIES, Pags 34; EQUITIES, Pages 35 (London), 43 (World)

CONTENTS

India is poised for a new beginning

There is a sense that this week's election is a prelude to fundamental changes, with Mr Rajiv Gandhi (left) and the Congress Party expected to be defeated.
Page 18

EUROPEAN NEWS

Gorbachev shifts Moscow party chief from post

By John Parker in Moscow

ONE OF Mr Mikhail Gorbachev's conservative opponents has been shifted from his post – Mr Lev Zaikov, the Moscow Communist Party leader and a member of the ruling politburo.

In a move open to conflicting interpretations, Mr Zaikov was named as first deputy chairman of the Soviet Defence Council, of which President Gorbachev is chairman.

Last September, Mr Gorbachev removed three full members and two non-voting members from the politburo, most of them left-overs from the discredited Brezhnev era.

Last month the conservative editor of Pravda was replaced by one of Mr Gorbachev's assistants, Mr Ivan Frolov.

Mr Zaikov's move comes at a time when the Communist Party is facing grass-roots criticism, falling membership and the prospect of humiliation in local elections next spring.

A special party conference of local activists is to be held in the spring to discuss the widespread sense of disillusion.

This was confirmed by Monday's edition of Pravda, the party newspaper, which carried a series of scathing attacks on party organisation and methods of work by local activists. At the same time Mr Boris Pugo, who was elevated to the politburo in September's purge, confirmed that 18,000 people had left the party so far this year.

Dissatisfaction within the party is compounded by popular dissatisfaction outside. This too has affected Mr Zaikov because Mr Gorbachev is demanding that local party bosses should stand for popularly elected posts as well.

Mr Zaikov has earned the enmity of many Muscovites for having replaced the lionised figure of Mr Boris Yeltsin as Moscow party leader in November 1987. Mr Yeltsin's personal popularity received a ringing endorsement in this spring's elections and has remained little tarnished by subsequent scandals.

Mr Zaikov reversed many of Mr Yeltsin's more popular initiatives, limiting unofficial street demonstrations and cleaning out the street painters and poets of the Arbat area.

Though Mr Zaikov remains a member of politburo for the moment, custom dictates that his successor, the reformist Mr Yuri Prokofyev would replace him at the earliest opportunity – the next plenary session of the central committee.

E Germany moves to decentralise economy

By David Marsh in Bonn

THE East German government yesterday announced moves to decentralise economic control as Mr Hans Modrow, the new Prime Minister, braced the population to prepare for "unpopular measures" to curb currency speculation.

In a decision which was billed as the first step towards economic reform, the government's Planning Commission said in a statement from East Berlin that it was cutting by half state-decreed planning for individual industrial sectors.

The Commission also said that 10-day and monthly production targets for East German enterprises were being abolished to aid efficiency and increase the autonomy of state-owned companies.

Mr Modrow, speaking during a visit to an electrical works in Berlin, confirmed that the government would tomorrow bring in tighter controls over the East Mark.

This would protect the currency from heavy selling in the wake of the opening of East Germany's borders a fortnight ago.

Referring to the large-scale selling of East Marks for D-Marks by travellers crossing westwards, Mr Modrow was quoted by the official ADN news agency as saying that he could not understand how East German citizens were simply "throwing away" their hard-earned cash.

At the same time, the government yesterday announced that local authorities – at present subject to highly centralised control – would be allowed more independence in allocating expenditure.

The measures form part of Mr Modrow's government's efforts to introduced what it has dubbed "a market-oriented planned economy".

East Berlin particularly wants the large state-owned corporations, or Kombinate, to operate more independently and to allow more autonomy for small private sector businesses.

Ms Christa Luft, the new Economy Minister, who is one of Mr Modrow's three deputies as prime minister, has however, made clear that the new policies under consideration will involve no basis for departure from socialist principles.

'INSTITUTIONAL CHANGE NEEDED TO COPE WITH EMU'

Delors seeks European reform

By Lucy Kellaway in Strasbourg

MR JACQUES DELORS, president of the European Commission, said yesterday that a big overhaul of European institutions was needed to cope with a future enlargement of the Community and with European monetary union (Emu).

He suggested a strengthened Commission that would be more politically accountable and would have greater executive powers, and a revamped Council that would consist of regular meetings of prime ministers on Community affairs.

Mr Delors was addressing the European Parliament during a debate on institutional reform at which many parliamentarians expressed the need for stronger links with national governments and broader powers over Community legislation.

Some kind of institutional change was inevitable as a result of movement towards economic and monetary union, Mr Delors said. The new arrangements would need to be discussed at an inter-governmental conference, possibly at the next one to be held on Emu or a separate one three or four years later.

Mr Delors raised the possibility of a 22-member European Community in which the present institutional arrangements would become "bogged down with hot air." Already there was a need for a stronger executive, he said, as "nobody is there to cut through the knots". His plans outlined for the Commission would involve reducing the numbers of commissioners from the present 17 and ending the system of fixed four-year terms.

He argued that commissioners should be made more accountable to parliament, which would be able more easily to demand their resignation. "You can't have power without responsibility. The only people appointed for six or seven-year terms are judges or central bank governors – think about that," he said.

More power also needed to be given to the European Parliament, which he denied would mean taking it away from national parliaments.

Mr Delors supported a suggestion made recently by Mr Michael Heseltine under which a senate would be created from members of parliament in the 12 countries. However, Mr Delors said he preferred his own scheme in which government ministers would act as a second tier to parliament.

Under Mr Delors' suggestion, much of the administrative work now being carried out by the Commission would be devolved to independent agencies. These would look after such areas as the Common Agricultural Policy and merger-control.

Mr Delors bemoaned the lack of information between Brussels and national parliaments.

E Europe loans to be proposed

By David Buchan in Brussels

THE European Commission is today likely to propose granting Poland and Hungary loans of up to Ecus 200m (£142m) to improve their industrial infrastructure, in a further step to help the beleaguered economies of these two politically reformist states.

The proposal by Mr Karel Van Miert, the Commissioner responsible for EC credit operations, would use the fund-raising capacity of the European Coal and Steel Community (ECSC) to provide loans at competitive rates.

Normal commercial credit channels are virtually closed to Poland, unable to service its $40bn debt, while Hungary has suffered a recent run on its hard-currency reserves.

If approved by the full Brussels Commission today, the ECSC loans would go for approval to EC governments whose leaders last weekend in Paris endorsed substantial aid to democratic East European states.

The ECSC loans would be guaranteed by, but not a direct charge on, the EC budget. Originally intended just to modernise EC coal and steel operations, ECSC financing has in recent years been extended outside the Community for infrastructure projects that use EC steel, and this would be a condition of any loans to Eastern Europe.

The wider effort to aid Warsaw and Budapest resumes on Friday when officials of the Group of 24 industrialised aid donors meet in Brussels in advance of their ministers convening there on December 13 along with, for the first time, the Polish and Hungarian premiers. The next step in Brussels' fast-moving economic diplomacy with Eastern Europe will come early next month when Mr Frans Andriessen, the EC external affairs commissioner, is to visit East Berlin to discuss the shape of a trade and economic co-operation accord with East Germany.

Improved East-West aviation links sought

By Paul Abrahams

EAST European countries are using the context of improving East-West relations to forge closer links with West European transport organisations.

Poland, Hungary and the Soviet Union have already approached the European Civil Aviation Conference (ECAC), the Paris-based organisation co-ordinating the security, technical and economic aspects of European civil aviation.

A request by the East German authorities to attend a working party group has already been accepted while the Bulgarian aviation authorities have also been in contact with the conference.

"Things are moving very fast – requests are coming in from all sides," explains Mr Edward Hudson, secretary of ECAC. "We have really only been in contact with the East Europeans for the last two or three weeks."

Mr Hudson believes the most important benefits for the East Europeans may be in the area of technical harmonisation. He suggested that if East European airlines were prepared to accept western standards they would find it easier to lease aircraft for hard currency in Western Europe.

The requests from Eastern European authorities are part of wider move for closer transport links with Western Europe.

● Lufthansa, the West German state airline, said it planned to double weekly flights from the Federal Republic to Leipzig to meet extra travel demand between the two Germanys, David Marsh adds.

Changes to social charter anger MEPs

By Lucy Kellaway

THE EUROPEAN social charter and Commission plans for implementing it yesterday received a rough ride in the European Parliament, where the majority Socialists and the Christian Democrat groups claimed it had been so watered down it was "not worth the paper it was written on."

Mr Jean-Pierre Cot, Socialist group leader, said that if the present weak version of the charter were adopted at next month's Strasbourg summit, the Parliament would retaliate by slowing legislation on the single market.

He also threatened that the Socialists might consider using the Parliament's negative power of censure, under which it is able to sack the whole Commission.

"We have the censure power and it is about time we used it," he said.

The Socialists want the charter amended to make it legally binding, to cover all citizens rather than just workers, and to contain broader measures on social rights.

Euro-MPs may reject second banking directive

By Lucy Kellaway

THE second banking directive, one of the most important parts of the single market legislation put forward this year, may be voted down by the European Parliament in its final reading of the bill today.

Several amendments to the bill, which would tighten up the reciprocity agreements and would impose tough capital requirements on branches of third country banks, are likely to be passed by the parliament.

These amendments will be rejected by the Commission as unnecessarily bureaucratic, requiring parliament then to vote on the whole directive. If it is overturned by parliament it could only subsequently be adopted by member states on a unanimous basis.

The Commission was yesterday lobbying earnestly to get parliament's approval. Officials seemed optimistic of a compromise under which the Commission would draw up reports on bank branches and on reciprocity, which would go to parliament for its comments.

The parliament is angry that its views have not been taken into account in the drawing up of the banking legislation.

It is concerned that branches of third-country banks might have an unfair advantage in a single market. It also fears that the existing reciprocity clause, under which third-country banks setting up in Europe must not discriminate against European banks and houses, is not sufficiently tight.

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Renault to close factory at Billancourt

RENAULT, the French state-owned car maker, yesterday announced plans to close its factory at Billancourt, which employs 4,000 people just outside Paris, where the company first started production in 1898, William Dawkins writes from Paris.

The move comes just a week after the European Commission threatened legal action against the French government for failing to enforce a 1988 agreement under which Renault would cut capacity as a condition of a FFr12bn (£1.2bn) state debt write-off.

However, Renault officials would not comment on suggestions that this was a conciliatory gesture to the Brussels authorities. This was part of the group's longer-term strategy of concentrating production at the most profitable sites, they said.

The Billancourt site has been the focus of serious industrial discontent in recent years and accordingly become a national symbol of labour conflict. The proposals will be submitted shortly to Renault's works council and board of directors.

Tension rises in Basque country as MP is killed

By **Peter Bruce** in Madrid

SPANISH AND Basque political leaders were making frantic efforts yesterday to prevent a new outbreak of Basque separatist violence, following the fatal attack on Monday night on a group of separatist Basque MPs who had come to Madrid to take, for the first time, seats in the Spanish parliament which opened yesterday.

Two masked men opened fire on the seven MPs and senators of Herri Batasuna, the political front organisation for the Basque terrorist group Eta, while they were dining in a Madrid restaurant. They killed one MP, Mr Josu Muguruza, and gravely injured a second, Mr Inaki Esnaola, who was one of the prime movers in HB's decision to come to the Cortes in Madrid.

Herri Batasuna immediately called a general strike in the Basque country for today, when Mr Muguruza will be buried. The extent to which the call is followed will test conventional Basque and Spanish opinion that the separatists have been slowly losing support in the region.

Herri Batasuna's decision to take up its seats in the Cortes had generated high hopes in Madrid and among non-violent parties in the Basque country that HB might eventually have to distance itself from Eta in order to participate fully in a democratic institution.

The surviving members of the HB dinner did not attend the opening of the new Cortes yesterday, but Mr Jon Idigoras, the party's chief spokesman and a survivor of the attack, said the attack made it all the more necessary for Herri Batasuna to take up the seats and press for negotiations between Eta and the central government.

Sporadic outbreaks of violence were reported from the Basque country yesterday and all Spanish political leaders condemned the shootings, in an effort to cool tempers. Prime Minister Felipe González called it "a horrendous crime, like all other terrorist crime" and said the police investigation was now "the government's number one priority".

Eta has killed more than 600 people in the last 20 years, and struck again in Madrid last Friday when gunmen killed a senior army officer in his car. It is thought likely that the two assassins were either connected with the military or to Francoist fascist groups. Monday was the 14th anniversary of the death of the former military ruler General Franco and the fourth anniversary of the killing of a Herri Batasuna leader in Bilbao. Soon after the shootings, a group of young fascists gathered outside the restaurant singing the hymn of Franco's Falange Party.

It is not known when Herri Batasuna plans to take up its seats in the Cortes. Mr Muguruza's replacement, according to the list drawn up by the party before the general election on October 29, would be a man currently awaiting trial for alleged involvement with Eta.

Herri Batasuna won 186,184 votes, or 16.9 per cent of the vote, in the Basque country in October, well down from its best performance of 210,430 in the European elections in 1987. This slippage, it is thought, played a big role in the decision to come to the Cortes and so combat efforts by other Basque parties to isolate it.

Rebirth of hope in St Wenceslas

Leslie Colitt's memories of Prague 1968 are brought back to life

BLURRED memories of 1968 came into sharp focus as I stood below the statue of St Wenceslas in Prague in a sea of 250,000 exuberant demonstrators on Monday.

Most of them were young people whose parents I remembered from the exhilarating Prague Spring of reforms in 1968, when everything seemed possible. They shook their fists helplessly when their homeland was violated by Soviet-led troops that fateful August 21.

Then as now, reporters looked on at the statue of the Czech patron saint as young people placed lighted candles and flowers at the base of the monument, and softly sang the Czech national anthem.

Recalling the words of their nation's medieval hero Jan Hus, burned at the stake for his reformist convictions, they chanted: "The truth shall prevail."

Less than a dozen people died in Prague in 1968; the biggest casualty from the tanks that crushed a reform movement and demoralised a nation was hope.

This week, it was the students of Prague's Charles University and other young people who shed the legacy of resignation and passivity left by their disillusioned elders. Only gradually did older people join their children on the square, demanding elections.

Such was the bitterness back in 1968 that even Mr Alexander Dubcek, the reformist party chief, was eventually blamed by his despondent people who had adulated him only months before.

Mr Duhcek came to he blamed by ordinary people for raising false hopes after the invasion that "socialism with a human face" would be rescued if citizens remained calm.

The population felt deceived and abandoned, much as Czechoslovaks did in 1938 when Hitler's Wehrmacht marched into the Sudetenland. The West, of which Czechs and Slovaks were an intrinsic part, had left them in the lurch.

In the final analysis, the path to power in February 1948 of the Czechoslovak Communists was paved by the refusal of Britain and France to risk a conflict with Hitler over "far off" Czechoslovakia.

The Communist takeover in 1948 was never merely the "putsch" which the West claimed. The Communists went from one strength to the next among workers and intellectuals as a result of the West's failure to aid Czechoslovakia.

They were the second-strongest party in the last free elections of 1946. Czechoslovaks, disillusioned with the West, saw a future tied with the Soviet colossus – for better or worse.

It was for worse: idealistic young Czechoslovak Communists who volunteered to help build the new steel mills and coking plants of Northern Bohemia became victims of Stalinist intrigue.

Within a few years the party was dominated by *apparatchiks* and had spawned the first virulent anti-communists. This was the fate of a small Central European land which was a pawn of its powerful neighbours.

HIGHLY-DEVELOPED Czechoslovak industry, which had supplied all of Europe with motor cars, shoes and glassware, was converted into a mass supplier of mediocre equipment for the factory halls of the Soviet Union.

The invasion of 1968 marked the logical conclusion of the political cul-de-sac Czechoslovakia had reached in 1948.

Mr Gustav Husak, who took over as party leader – in effect Moscow's man in Prague – after the invasion, knew there was no chance of winning over his beaten countrymen.

Instead, he filled their wage packets with money, the butcher shops with meat and the streets with Skodas. Czechoslovakia became something of a consumer paradise of the East. The artificial boom, however, ground to a halt in the early 1980s.

Investment-starved industry was incapable of earning hard currency in the developed West and shifted to customers in the Middle East who soon proved unable to pay back the credits Prague had to advance them for pipelines and power stations. A once-sophisticated economy was reduced to selling wood, coal and basic chemicals to Western Europe.

The young protesters in Prague, Bratislava and other cities repeatedly called for the resignation of Mr Milos Jakes, the Communist leader, and his politburo. But where were the reformers who would replace them?

The parents of these young people in 1968 believed the mild-mannered Mr Duhcek could reform the Communist system. But now young Czechoslovaks are demanding nothing less than free elections and thus a certain end to Communist rule.

The party's last reformers were expelled after 1968, leaving behind a few ideologists and many careerists and technocrats. They were tied to the party only by the privileges it gave them. In the future their loyalties are bound to shift in whichever political direction Czechoslovaks decide to proceed.

Warning of Finnish austerity budget

By **Robert Taylor** in Stockholm

THE Finnish government, facing with rising inflation and a surging external deficit, threatened yesterday to introduce a tough austerity budget in spring unless workers and employers agree quickly to a two-year incomes policy.

Under the ultimatum issued by Mr Harri Holkeri, the Prime Minister, the main central trade union body and employer organisations have a week to accept a two-year wage stabilisation accord, which aims to ensure that real incomes rise by no more than 4 per cent by the end of 1991.

If both sides agree by the middle of next week, individual unions will be given until the end of December to accept it as well. If this happens, existing fiscal policies will continue.

However, Mr Holkeri also spelt out a tough alternative, to be introduced from next March if there is no such voluntary incomes policy. This would involve:

● a one per cent increase in wage earners' social security contributions;

● a one per cent increase in employers' sickness insurance contributions;

● a compulsory savings scheme to last until 1991 which would deduct one per cent from all employees earning more than FM60,000 a year;

● a cut in central government expenditure of FM1bn (£147m).

The Ministry of Finance estimates that the direct effect of these austerity measures would cut domestic demand by FM6bn-FM7bn but if the indirect consequences are also included it would mean a removal of up to FM8bn from the economy.

The government also calculates that such a tightening of fiscal policy would help to reduce the present spiralling wage-price inflation, which means a rise in the consumer price index of 6.5 per cent this year and an 8.5 per cent increase in earnings.

● Sweden's finance minister, Mr Kjell-Olof Feldt, issued a grim warning yesterday about the deterioration in the Swedish economy but he said that a devaluation would not solve the problems caused mainly by a rapid rise in costs due to an accelerating price-wage spiral, which has pushed pay rises this year to nearly 10 per cent.

Speaking to a trade union conference in Stockholm, he pointed out that wages in Sweden were rising three to four times as fast as productivity and this was making the country's goods increasingly uncompetitive on international markets.

East bloc's winds of change reach Italy's Communists

By **John Wyles** in Rome

IF THE political transformations under way in Eastern Europe point to a new era in European history, they have also lit a fuse under the rigid political structure which has governed Italy for the past 40 years.

For decades, Italy's political mould has been largely painted in Christian Democrat colours, because the only alternative government has offered a bright red motif dominated by the hammer and sickle. It is too soon to know whether an explosion lies ahead which could crack this mould.

But in a virtuoso display of political leadership, which may yet prove miscalculated, Mr Achille Occhetto, the 53-year-old leader of Italy's Communist Party (PCI), has been moved by the recent upheavals in the Eastern bloc to seek a controlled political explosion in Italy.

The attempt he launched last week to persuade the party to adopt a new identity and a new name has stunned the vast majority of his comrades, and portends long and divisive torment.

Passions are so inflamed that a spontaneous protest outside the PCI's Rome headquarters posed a physical threat to known Occhetto supporters when they arrived for a crucial central committee meeting beginning on Monday evening. The 400-member committee will debate throughout the week Mr Occhetto's proposal that by one means or another the PCI must seek to refound itself as a new vehicle for those forces seeking a socialist alternative to four decades of Christian Democrat-dominated governments in Italy.

By jettisoning its name and some ideological baggage, Mr Occhetto believes the PCI can halt the slow decline of this decade, which has reduced its support to around 25 per cent or 10m votes.

His aim is twofold: to create the basis for a new co-operation on the left in Italy, particularly with the Socialists, and to seek a broader base of political support among middle-class Italians who care about the environment, women's rights and civil rights – and are disillusioned by the pervasive and corrupt control of the DC and its long-standing coalition allies, who include the Socialists.

The PCI tradition of loyalty to the leadership gives Mr Occhetto a good chance of success in his gamble. But he is not assured of doing so because the old guard, rallied behind his one-time mentor and leader of the party's left, 75-year-old Mr Pietro Ingrao, is emerging as viscerally opposed to his new strategy.

In a long speech to the central committee yesterday, Mr Ingrao aimed directly at the Achilles heel of the Occhetto strategy, pointing to the absence of any signs that Mr Bettino Craxi's Socialists or any other force on the left would actually participate in the new joint venture.

Mr Occhetto's political problem is that he has prepared none of the ground before suddenly planting his party at arguably the most important cross roads of its 68-year history. Though he has been nurturing the move at the heart of his strategy since he took over as leader in June last year, he apparently decided to move between November 10 and 12; his intentions were crystallised by a discussion in Brussels with Mr Neil Kinnock, the leader of the British Labour Party, and the opening of the Berlin Wall.

Mr Occhetto set out some, but not all, of his thinking in his keynote speech to the central committee on Monday evening. In the first place, the party's role over the past 25 years as a critic of the Soviet and East European regimes was now exhausted "because it has been fully justified by events".

Democracy was now being embraced as a "universal value" and the Socialist International would become an increasingly important focus of organisation for the European left. "Italian communists cannot indefinitely go on proclaiming their difference in the world, inside a proud isolation," he said.

By the end of the week, Mr Occhetto and the PCI may know whether it is heading for a new beginning or searching for a new leader.

US to ease draft rules for foreign investors

By Peter Riddell, US Editor, in Washington

FOREIGN investors in the US will face new rules on the deduction of interest for tax purposes and tighter reporting requirements under the final version of the budget bill agreed yesterday.

However, other controversial proposals, such as increased taxation of gains on the sale of US stock and the capitalisation of research and development expenditure, have been dropped following intensive lobbying by affected parties, including the British and other European governments.

The provisions on the deduction of interest are less onerous than initially proposed by the House Ways and Means Committee and may in effect be more consistent with the arm's-length principles included in existing double tax conventions. This is to deal with the problem of earnings stripping: when companies create excessive debt structures in one country to benefit equity owners in another, lower taxation country.

The final version of the bill operates on the safe harbour principle whereby all interest charges are allowable up to a certain debt/equity ratio. Only when debt is higher than that level will the US Internal Revenue Service then start examining adjusted taxable income, in effect cash flow, in relation to interest expenses. This will be applied on a discretionary basis relative to the level of debt appropriate to the type of business.

Several key details have yet to be fixed, though the principles are set out in the conference report on the bill.

The bill also retains more stringent reporting requirements for foreign groups owning 10 per cent or more of the stock of a US corporation. The US corporation would be designated to act as the foreign investor's agent for service of process on records relating to any transaction with the overseas owner. The proposal in effect subjects foreign parent companies to US IRS audits beyond what is necessary to enforce compliance with the tax code.

Overseas governments and investors have objected to this provision as a significant extension of US extra-territorial jurisdiction over foreign companies investing in America.

The British Government believes that this provision could impose excessive burdens on UK business when the US already has substantial powers to obtain the information which it requires, notably through the exchange of information article in double taxation conventions.

Souvenir of the Wall for Bush

By Lionel Barber in Washington

WEST GERMANY'S Foreign Minister, Mr Hans-Dietrich Genscher, yesterday handed President George Bush a chunk of the Berlin Wall and paid tribute to the US role in bringing the barrier down.

Mr Genscher said he wished to convey the "deep gratitude" of West Germans for US support and its resolve which had endured, through good and difficult times since the Second World War.

Mr Bush, posing for photographers in the Oval Office, said he would treasure the splinter of the Wall which was removed after East Germany opened its borders to travel.

Despite the good humour, US officials were disturbed by comments on Monday by West German officials who said the upheaval in Eastern Europe has ruled out any possibility of updating and deploying Nato's short-range missiles in Germany. One official accompanying Mr Genscher said: "The question of modernisation makes us laugh . . . I don't see any possibility any more to discuss this question.3

Mr Genscher's visit comes one week before President Bush and President Mikhail Gorbachev are due to meet on warships off Malta.

Hans-Dietrich Genscher: will find that talk of German reunification is no longer taboo in Washington

Boeing set to resume output

By Roderick Oram in New York

AIRCRAFT manufacture will resume at Boeing next Monday following overwhelming acceptance of a new three-year contract by 57,000 striking members of the Machinists' union.

The union made only minor progress during the six-week strike on its main goal of a big increase in basic pay rates, judging by terms of the deal released after more than 80 per cent of the employees had accepted them on Monday.

Leaders of the union and the US labour movement had believed Boeing, flush with $85bn of airliner orders, could afford to make up ground lost by employees during lean times in the mid-1980s.

The principal aim was to win hefty rises in basic pay rates, which feed through to pensions and other benefits, instead of the large lump sum bonuses Boeing had paid in recent years. Boeing failed to budge, however, from its original offer of a 4 per cent rise in the first year and 3 per cent in both the second and third.

Over the life of the contract, basic rates will rise by an average of $3.24 an hour. Rates ranged from $8.88 to $18.42 an hour in the old contract.

The unions said Boeing gave ground on cost-of-living adjustments which will further increase basic pay. Boeing also cut mandatory overtime, a contentious issue, to two consecutive weekends and a maximum of 144 hours a quarter with double time after 160 hours. Previously, the mandatory minimum was 200 hours, a rule Boeing had used extensively to increase production.

Boeing also increased the bonuses to 10 per cent from 8 per cent in the first year, to 5 per cent from 3 per cent in the second and to 4 per cent from zero in the third.

Boeing's labour problems are not over. Its contract with 27,000 engineers and technicians expires next month. Their union seeks pay increases totalling 30 per cent over three years.

US consumer price rises in line with forecasts

By Anthony Harris in Washington

US consumer prices rose 0.5 per cent in October, after showing little change in the previous two months.

The price increases covered virtually all categories and had been forecast accurately in the markets, which showed no response. The rises bring the annual inflation rate for the first 10 months of 1989 to 4.6 per cent.

The biggest rises were in apparel, which rose strongly for the second successive month after earlier weakness as new styles were introduced. Higher prices for 1990 model cars helped to raise the transport component, though in view of very weak sales these will probably relapse.

Medical costs continued their rapid inflation, with a 0.7 per cent rise in the month, bringing the 1989 annual rate to 8.1 per cent. The inflation of private health insurance costs, which have been rising still more rapidly, are eroding corporate profits and have been an issue in a number of current labour disputes.

Food prices, which have been subdued thanks to the recovery from the 1988 drought, rose in line with the index in October.

New 'partners in leadership' sound each other out

Lionel Barber on US relations with Bonn

MR Hans-Dietrich Genscher, West Germany's Foreign Minister, who met President George Bush in Washington yesterday, may well have reflected on the turnaround in relations between the US and the Federal Republic.

A relationship which recently threatened to be poisoned by recrimination is maturing to the point where Mr Bush's talk of "partners in leadership" is more than just a ringing phrase.

The puncturing of the Berlin Wall – itself the most dramatic (and potentially destabilising) event in East/West relations in the past 30 years – has provided the necessary psychological test.

President Bush has handed Chancellor Helmut Kohl the lead role in coaxing East Germany towards reform. This is partly a message to Mr Mikhail Gorbachev that the US does not intend to take unilateral advantage of the upheaval in Eastern Europe; it is also a recognition that West Germany – not the US – has the most economic leverage over its communist neighbour.

Chancellor Kohl, in turn, has been in regular contact with the President. By one account, there is now an informal understanding between the Americans and Germans that Bonn keeps Washington abreast of its diplomacy in Eastern Europe in return for US support, however hedged, of German reunification. "This helps tremendously," said a German official, "because unification is no longer taboo".

Last week, for example, Mr Bush declared that unification was "a matter for the people of the Germanys to determine". The President acknowledged Allied and particularly Soviet concern, but he added: "I don't think that history need repeat itself if there evolves a single German state."

The Bush-Kohl diplomatic duet evokes memories of the close relationship between Mrs Thatcher and President Reagan, but as one senior US official noted: "The President realises that there are other relationships, other partners . . . and Germany is fundamental."

The contrast with the mood 10 months ago is striking. According to a cruel but often heard joke, US-German relations could be summed up in three words: Genscherism, Gorbymania and gas.

Genscherism described the feared eastward drift of West Germany foreign policy under Mr Genscher, at the expense of Nato; Gorbymania referred to the opinion polls last spring which showed that nine out of 10 Germans deemed Mr Gorbachev to be "trustworthy"; gas, as in poison gas, related to the Reagan Administration's disclosure that Bonn ignored official warnings that a West German company had supplied technical know-how to Col Muammer Gadaffi of Libya to build a chemical weapons plant near Tripoli.

However misleading the three Gs were, they combined to sow mistrust between the US and the Federal Republic, fuelled by the US press. Mr William Safire of the New York Times blasted Bonn for building an "Auschwitz in the Desert", prompting the Chancellor to grumble recently: "This Safire fellow has done more damage to German-American relations than any other individual." Anti-German? Mich?, replied Mr Safire.

The Germans buried the gas dispute, through a mix of tighter export control laws and large doses of contrition; but then they stumbled into the Nato row over committing the Alliance to deploy a new short-range nuclear (SNF) missile in the Federal Republic to replace the ageing Lance.

After the 1987 superpower INF treaty banning medium-range nuclear missiles, Germans on the left and right argued they had been thrust even further into the nuclear front-line. One million troops stationed on German soil merely underlined German "singularity", or special vulnerability in the event of war. Chancellor Kohl, egged on by Mr Genscher, called for early East-West SNF negotiations.

Mr Bush agreed to an elaborate compromise at the Nato summit in Brussels. He postponed a decision on Lance deployment beyond next year's German elections, while tying future SNF negotiations to implementation of a Nato/Warsaw Pact conventional weapons pact.

Some believe Mr James Baker, US Secretary of State, told the President that forcing the Lance issue would not only rip the Alliance, it would lead to a left-leaning Social Democratic in Bonn after next year's elections. Others argue that Mr Bush chose on strategic grounds to side with the Germans instead of the British; hence his speech in Mainz, proclaiming Germany and the US to be "partners in leadership".

Certainly, the US has subsequently proved a good deal more accommodating to German rather than British wishes on Nato issues.

Yet despite confidence-building measures, there are still sceptics about the new rapport. The National Security Council staff is said to be cooler than the State Department. The Pentagon is also concerned about German backsliding on defence spending and a decision to extend conscription from 15 to 18 months, ostensibly to take account of the falling German birth rate.

More broadly, as both US and German officials admit, it is still unclear how the Americans will react to a Germany which uses not only its economic power but also its political muscle in the new Europe. For the moment, however, as the smile on Mr Genscher's usually lugubrious features will testify, this is a partnership slowly coming of age.

Regulator denies political influence over Lincoln

By Peter Riddell, US Editor, in Washington

THE Federal regulator at the heart of the growing scandal over the collapse of Lincoln Savings and Loan yesterday admitted mistakes but denied political influence in his decisions.

Several criminal and civil cases have been started as a result of the collapse of Lincoln at a cost of up to $2.5bn. The House Banking Committee has been investigating the background and, in particular, whether Federal regulators delayed taking control, as well as the role of five US Senators who took contributions from Mr Charles Keating, the head of Lincoln.

There has been a particular focus on Mr Danny Wall, the chairman of the former Federal Home Loan Bank Board, and now head of its successor the Office of Thrift Supervision. He transferred the jurisdiction over Lincoln from the board's San Francisco office, which favoured early tough action, to his agency's headquarters in Washington and ordered a second examination. This delayed seizure of Lincoln for nearly two years until this April.

Mr Wall, whose current position is under threat, yesterday said that "no political figure influenced my decisions".

Mr Henry Gonzalez, the chairman of the House Banking Committee, has called for Mr Wall's resignation, while President George Bush has left open the door for his departure. The actions of the five senators is now being investigated by an independent counsel appointed by the Senate Ethics Committee.

Hills in effort to push multilateral trade talks ahead

By William Dullforce

MRS Carla Hills, US Trade Representative, presented two proposals for forwarding the multilateral trade talks during the informal meetings of trade ministers in Japan last week. Details have emerged from US officials' explanations to trade negotiators in Geneva.

First, to break the impasse over tariff cuts, Mrs Hills suggested that each country should submit the programme it intended to follow, to achieve the 33 per cent overall reduction in tariffs set as a target by trade ministers at their mid-term review of the Uruguay Round in Montreal last December.

However, the programmes would outline how the target would be reached not just in the tariffs negotiations but across-the-board in all the separate negotiations aimed at opening access to markets. These include non-tariff measures, natural resource-based products, tropical products, textiles and clothing.

So far negotiations in the market access area have been hampered by the failure to move on tariffs, where the US has been insisting on pursuing a request-and-offer line while most other countries want to use an overall formula to determine tariff cuts.

Second, Mrs Hills proposed that ministers instruct negotiators to give priority to reaching agreements in the rule-making area.

In this area, negotiators are trying to work out new rules for such matters as subsidies, anti-dumping action, the allowances made to developing countries for balance-of-payments reasons, and the "safeguard" measures countries can take against sudden surges of imports.

Washington's argument is that, if negotiators can produce a sound package of new rules by the middle of next year, they will be in much better shape to cut deals on such crucial issues as farm trade reform, services and intellectual property rights before the scheduled end of the Uruguay Round in December 1990.

Mrs Hills' proposals were on the whole well received by the other trade ministers, US officials say. They now hope the proposals will filter down to the Geneva negotiations in the form of instructions from capitals.

Cairns group warns EC, Japan over trade

MINISTERS FROM the 14-nation Cairns Group of agricultural exporting countries yesterday warned the European Community and Japan that failure to discuss seriously agricultural trade liberalisation could jeopardise the Uruguay round of multilateral trade talks, Peter Ungphakorn reports from Chiang Mai.

The ministers and officials, beginning a three day meeting, aim to complete the group's final proposal on farm trade reform in time for next week's meeting in Geneva of Uruguay round negotiators on agriculture, possibly the final meeting of the year.

Reluctance to ease CoCom curbs

Japan and the US remain reluctant to ease strategic exports to the Eastern Bloc despite democratic reforms there, Reuter reports from Tokyo.

Two days of talks were held in Tokyo between Japan and the US, the first such meetings since April 1988. They were part of a regular dialogue to co-ordinate policies related to CoCom, the Co-ordinating Committee for Multilateral Export Controls which regulates strategic exports to the Eastern Bloc.

Air France signs Airbus contract

Air France has signed a contract with Airbus Industrie to buy seven four-engined, long-haul Airbus 340-300s. They are placing options options on a further four aircraft. The aircraft, due for delivery between 1994 and 1998, are intended to operate on routes which no longer justify the use of the larger Boeing 747. The order is worth £670m in total, taking Airbus orders to more than £5.75bn this month alone.

US car group in China venture

Panda Motor Corp of the US will start vehicle production by end-1990 in the south China city of Huizhou, the People's Daily said, Reuter reports from Peking.

The project, China's largest foreign investment with $1bn from Panda, is expected to produce 300,000 economy-size vehicles for export by 1995, the newspaper said.

Japanese company buys NY hotel

A unit of Royal Hotel Group of Osaka, Japan, has agreed to pay $230m for a hotel being built in central Manhattan, The Wall Street Journal reported yesterday, AP-DJ reports from New York.

The 505-room property, known as the Royal Concordia Hotel, belongs to an investment group which includes Zeckendorf and the Sol Goldman estate, both family-run, New York property concerns, and KG Land New York, a U.S. unit of Tokyo's Kumagai Gumi.

Tokyo SE to begin fax service

The Tokyo Stock Exchange will start faxing on request certain information disclosed by listed companies to brokerages and investors from April 1990, an exchange official said, Reuter reports from Tokyo.

Rules of origin weave a very tangled web

Peter Montagnon reports on a complex trade row between the EC and Washington

TRADITIONALLY the preserve of back-room boffins in customs departments, rules of origin have never played much of a role in the cut and thrust of international trade policy.

Suddenly this Autumn, however, they have emerged as a central issue behind the latest trade row between Europe and the United States. Washington has complained that they are being used in connection with measures to prevent circumvention of anti-dumping duties to force foreign companies to invest inside the Community.

The result is a dispute which illustrates not only the tangled web woven by the European Community in seeking to extend the reach of its anti-dumping laws but also the unexpected way in which traditional trade definitions are being called into question by today's global markets and high-technology industrial processes.

At the heart of the problem is the need to define the origin of printed circuit boards, an issue on which European Commission officials in Brussels say they expect to rule, within the next month or so.

The ruling has become necessary because only then will it be possible to say whether a board incorporated into a Japanese product assembled in Europe counts for or against that product when it is assessed for anti-dumping duties under current European rules.

These are now applied to products assembled in Europe if direct imports from Japan (or any other dumping country) are also chargeable.

But an important constraint is that the European-assembled product escapes duty if at least 40 per cent of its components originate in a country other than that which has been accused of dumping.

European officials fear that Japanese companies may be trying to meet this criterion by assembling printed circuit boards in the US. Their suspicion is fuelled by what they regard as the brazen way in which Ricoh, the Japanese photocopier concern, announced that it evaded European dumping duties a couple of years ago by shipping to Europe products which were assembled at its plant in California.

'Intellectually, this is a very difficult subject. It's a Pandora's Box on which we are lifting the lid, slightly'

To the US, however, this attitude smacks of a reverting to a fortress Europe mentality.

Propelled by its local industry, the Bush Administration has charged the EC with a conscious intention to use this concern to divert trade and investment.

Japanese companies are reluctant to rely on US suppliers because of doubts as to how the goods would be classified.

As a result, US firms which want to supply them are losing sales and being forced to invest inside the Community, they say.

Theoretically, this problem should be resolved by a clear origin rule for printed circuit boards, but arriving at such a rule is no easy matter for a high-technology product which comes in various shapes and sizes, from simple boards designed to be incorporated into toys, to multilayered ones which are used in computers.

The EC uses the internationally agreed Kyoto Convention when deciding on its origin rules. This says that origin is conferred by the place in which the last substantial transformation took place.

But with a product such as a printed circuit board this begs the question of what exactly the last substantial transformation really is.

Commission officials say there is no ulterior motive behind their preoccupation with this dilemma. "These are neutral rules. We don't consider them as measures of commercial policy," said one. Yet they also stress the need to establish an absolute rule which can be applied in all circumstances.

Unlike the US, which applies different origin rules depending, for example, whether they are to be applied in dumping cases or simply to define whether a product originates in a country eligible for most-favoured-nation treatment, the EC aims to have one set of rules covering both imports and exports and applicable in all circumstances.

The rules must also be written in such a way as to withstand legal challenge in the European Court, which means they must clearly conform to the Kyoto Convention on which all decisions are supposed to be based.

Yet the difficulty with printed circuit boards is that the most obvious "last substantial transformation" is the process of "stuffing" whereby memory chips are attached to the board. Industry experts acknowledge that this is a relatively minor and unskilled process.

The Commission has not excluded using it to define origin, but it is now also scrutinising the manufacturing process of printed circuit boards to see whether another process may be more relevant.

If it cannot find one, it may revert to a more arbitrary and less preferable solution of applying a local content percentage to finished printed circuit boards.

'Japanese companies are reluctant to rely on US suppliers because of their doubts on how goods would be classified'

This solution has already been adopted for tape recorders and television sets where a 45 per cent rule applies.

In the case of memory chips, the Commission has already decided that origin is conferred by the place where diffusion – or the implantation of conduction materials into silicone – takes place.

Ironically, despite the controversy this caused at the time, this is a definition already accepted by the US, which wrote it into its 1988 Free Trade agreement with Canada.

However, US officials say that in that case there was no intention whatsoever of using the rule to force investment.

Despite emphatic statements by top EC officials, such as Mr Frans Andriessen, External Relations Commissioner, that the EC has no policy of forcing investment in the Community, US officials say there is a lingering suspicion that this is not the case.

Policy statements from the top are not always consistent with the behaviour of officials lower down the line, they say, and the EC needs to settle this matter once for all.

It remains to be seen whether the final decision taken by the Commission will satisfy the US.

The Bush Administration is being consulted in the discussions but has no right of veto.

Nor does it seem unduly impressed with European efforts to allay its concern by pointing out that the informal solution applied to Ricoh photocopiers has involved the Japanese company in investing and sourcing more in the US rather than Europe.

Even if the problem of printed circuit boards does turn out to have a happy ending, it is unlikely to be the last such dispute in a world where trade policy is having to adapt to the spread of increasingly complex high-technology processes and investment flows.

The question of rules of origin is now also before the Uruguay Round of multilateral trade negotiations, but trade officials acknowledge that it is likely to be difficult to find rules that can be universally applied. In a world of fluctuating exchange rates and differing labour costs, it is hard to see how the same origin formula can be applied to products made in countries ranging from Japan to Bangladesh.

This is an intellectually very difficult subject, said one EC official. "It's a Pandora's Box on which we are lifting the lid. Slightly."

Spain gives go-ahead for Italian glass plant

By Peter Bruce in Madrid and John Wyles in Rome

THE SPANISH Government appears to have finally won its battle to persuade Societa Italiana del Vetro (SIV), the big state-owned Italian glass producer, to go ahead with plans to build a float glass plant in the blighted northern port of Ferrol.

The Industry Ministry in Madrid confirmed reports yesterday that SIV chairman Mr Gianlorenzo Saporitti and two close associates of Spanish Industry Minister Mr Claudio Aranzadi had signed an agreement in Rome last Friday to go ahead with the plant.

SIV agreed more than a year ago to build the plant – its second in Spain – but subsequent boardroom in-fighting has led to long delays and, at one stage, to the project being called off.

Under the new agreement, which still has to be ratified by the SIV board, possibly this week, by the board of EFIM, the Italian state holding company which controls SIV, and the Spanish Cabinet, the cost of the project is Pta 17.5bn ($149m).

Spain, which originally agreed to subsidise 58 per cent of the investment, has also agreed to raise this to just over 60 per cent of the cost of the project.

The plant will employ about 400 people when it comes on stream, and produce about half a million square metres of float glass a year.

Mr Aranzadi has worked particularly hard to save the project, and last Friday's agreement will also strengthen his hand in the political argument in Spain over who which company be allowed to take over the big Spanish truck producer, Enasa, from the Government.

Mr Aranzadi favours Fiat, which has also offered to build a car plant in Spain if it is awarded Enasa, but the Spanish State holding company, INI, is backing a bid from Daimler Benz and MAN of West Germany. This arrangement would leave INI still holding a stake in the truck company.

A final decision on Enasa is expected before the end of this month.

At one stage the success of Fiat's bid was being linked to a successful conclusion of negotiations on the SIV glass plant but political pressure from INI for the West German bid is now so strong that Fiat can no longer be regarded as a secure front-runner.

Brazilian snub for Pirelli

PIRELLI, the Italian tyre company, has been refused permission to build a fibre optics facility in Brazil on the grounds that it would threaten development work by local producers, Ivn Dawnay reports from Rio de Janeiro.

The decision by Mr Joao Alves, the Interior Minister, endorses an earlier ban imposed by the Special Information Technology Secretariat – the government agency responsible for enforcing the country's protectionist computer laws.

It comes only months after Olivetti was forbidden to set up an autonomous microcomputer manufacturer on similar grounds, even though control would have remained with Brazilian nationals.

Brazil began research into fibre optics in 1973, backed by financing from the state telecommunications company Telebras. Three local companies have since received financial incentives to develop the technology.

The Government believes national companies will be able to exploit a local market worth $10bn by the end of the coming decade with up-to-date technology.

World Bank seeks way out for 'marginalised' Africa

By Michael Holman, Africa Editor

"AFRICA'S continuing economic crisis presents an extraordinary challenge to the development community," writes Mr Barber Conable, presideot of the World Bank, in his introduction to the Baok's 300-page report, Sub-Saharan Africa: From Crisis to Sustainahle Growth*.

Notwithstanding efforts hy all involved, the crisis has continued to deepen, says Mr Conable. Economic reforms already io place must he "broadened and deepened". If Sub-Saharan Africa is to achieve food security, and register a "modest" imprnvemeot in living standards, economies of the regioo must grow by at least 4 to 5 per cent annually.

This is a "highly ambitious" target compared with past performance, Mr Conable acknowledges, but one which the Bank believes can be achieved.

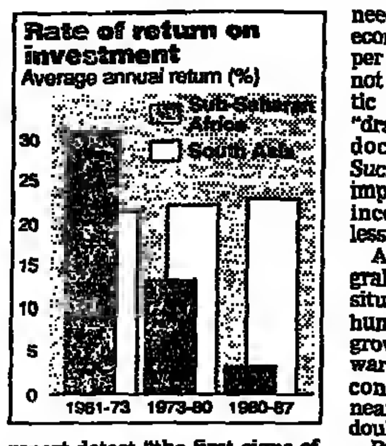
A central theme of the report is the need for "good governance, a public service that is efficient, a judicial system that is reliable, and an administration that is accountable to the public".

Ordinary men and women must be given greater responsibility for improving their lives, grassroots organisations must be fostered, the informal sector encouraged: "Development must be more bottom-up, less top-down."

The need for concerted action by African goveroments, donors and the private sectnr "has oever heen greater", he says.

Although the authors of the report detect "the first signs of improvement" in the economies of African governments implemeoting economic reforms, they nevertheless paint a hleak picture of the region.

"Overall Africans are almost as poor today as they were 30 years ago," notes the report. Economic growth in Sub-Saharan Africa has averaged 3.4 per cent a year since 1961, only a fraction ahove population growth.



The report warns that Africa must take two "crucial" initiatives if it is not to be "further marginalised" as the world eoters a new technological age. It must:

■ Improve science and technology training, and aim at the highest standards for at least a minimum core of specialists.

■ Forge new partnerships with qualified firms and research iostitotes in the developed countries.

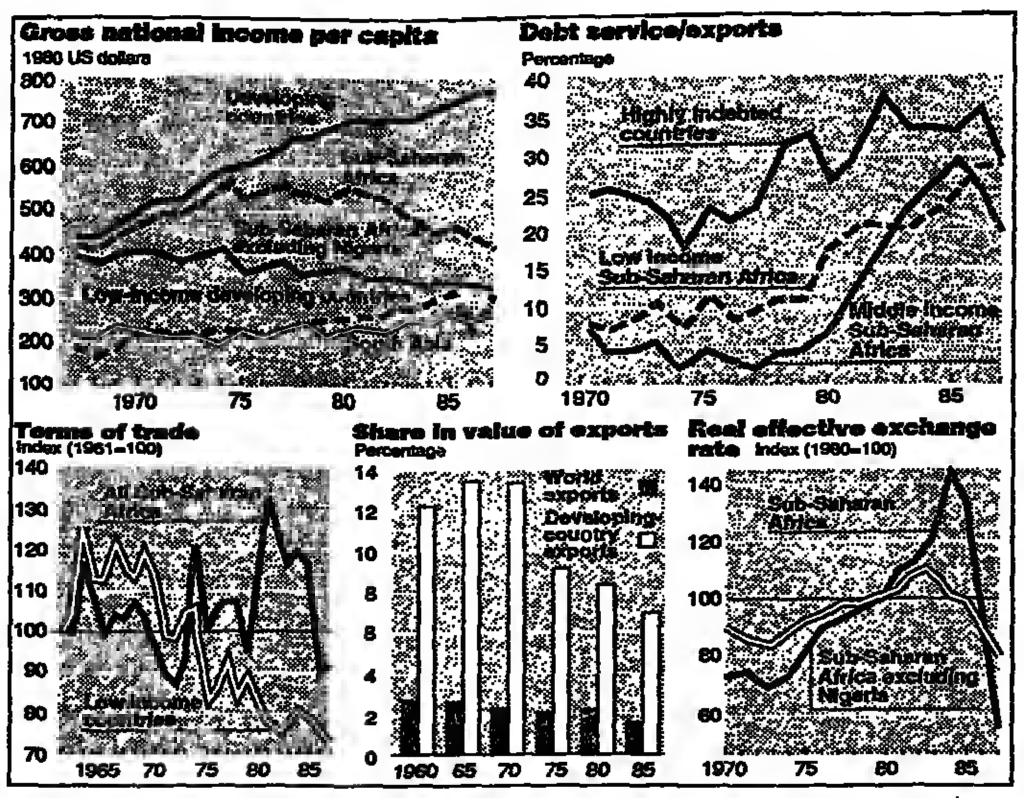
Turning to the measures needed if Africa is to achieve economic growth of at least 4 per cent, the report says that not only must levels of domestic saving and investment be "dramatically" raised, but prodoctivity needs to increase. Such an increase requires an improved infrastructure, better incentives, accompanied hy less, and better, government.

A population policy is integral to development. "Africa's situation is unique. Never in human history has population grown so fast," says the report, warning that if current trends continue Africa will have nearly 500m people by 1990 and double that by 2010.

Productivity of cultivated land must rise, production must he diversified. Prices must be flexible, responding to changing market conditions. Reforms to land tenure must increase security and thus encourage investment in land improvements. Agricultural research institutions must he rehabilitated, extension services improved; environmental protection is essential.

Industry requires a fresh start: "Earlier industrialisation efforts focused on state-led creation of capacity without adequate regard to costs or markets." The private sector holds the key to future industrial growth, says the report, which urges governments to support private investors, "in particular by establishing a well-functioning judicial system that can he relied on to protect property and to enforce contracts."

Sub-Saharan Africa needs to raise investment from the present 15 per cent of GDP to 25 per cent; spending on human resource development should doubled from the present 4 to 5 per cent of GDP; infrastructure spending should rise to 6 per cent of GDP, the report says.



The external funding needs of Sub-Saharan Africa in the 1990s could be met if:

■ Official development assistance (ODA) increased at about 4 per cent a year in real terms, which is below the rate achieved in the 1980s.

■ Concessional deht relief mechanisms, for which middle-income countries should be eligible, ensured no increase in debt service payments.

The report acknowledges that structural adjustment "must take fuller account of the social impact of reforms" and welcomes debate between African countries and donor agencies. But it stresses that none of the measures and policies advocated "will go far, nor will much external aid he forthcoming, unless governance in Africa improves".

"The challenge facing Africa is exceptional," says the report, "the cost of failure would be appalling."

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Report welcomed for willingness to confront the tough issues

Reactions to the report ranged from an unequivocal welcome from Britain to a generally critical respoose from the Economic Commission for Africa:

■Lynda Chalker, UK Minister for Overseas Development: The repnrt provides a timely reminder that adjustment programmes must he cousistent with long-term development objectives [and with] population growth and health: improving the educational base: how to raise prodoctivity of agriculture: and how to absorb the huge numbers entering the labour force.

The supreme objective – sustainable growth with equity – is surely right. Development must reach all levels of society. I am glad that the report lays so much emphasis on human resource development: people are the key to Africa's future.

I very much support the report's thesis that ordinary people ebould he allowed to take charge of their own lives, that communities should be more responsihle for their development, and, most important, that governments must listen to their people.

■Adebayo Adedeji, a United Nations under-secretary-general and executive secretary of the UN Economic Commission for Africa: This latest study is more professional and less polemical, more pragmatic and less theological, than the Bank's report earlier this year, which tried to prove that structural adjustmeot in Africa is working. It accepts, even if implicitly, that conventional adjustment is not working, and that what Africa needs is adjustment with transformation.

It recognises that despite orthodox structural adjustment programmes, Africa's economic crisis has continued to deepen; that these programmes have failed to address the issue of poverty alleviation and equity; and that they have ignored the human dimension of development.

But the Bank has still not thought through what new policy instruments and measures will be required to achieve a marriage between transformation and adjustment, in order to hring abont sustainable growth with equity.

Measures such as liberalisation, privatisation, and dogmatic insistence on cost recovery in education and health (a policy which most rich industrialised countries have not been ahle to pursue), won't do.

■Adrian Hewitt, deputy director of Britain's Overseas Development Institute: Overall, this is a better, more balanced and more comprehensive analysis of Africa's economic problems than the earlier Sub-Saharan Africa reports from the World Bank. It looks beyond the short-term, and shows some signs of the process of consultation with African governments and other interests which has been undertaken over recent years. Although it is less than the jointly-agreed consultative document which many would have wished, it proves that the Bank is not the unchanging monolith which it is sometimes caricatured as.

I welcome the more pragmatic approach to designing and implementing appropriate policy reforms, and the renewed focus on protecting the poor and reducing poverty. Claims that there is strong positive evidence of the effect of adjustment programmes of Africa's industrial sectors are unconvincing.

There is some recognition of the devasting effects of changes in terms of trade but little is proposed in the form of sustainable eolutions to the problem of severely-eroded creditworthiness throughout almost the whole of Sub-Saharan Africa.

■Dr J L S Ahbey, Ghana's High Commissioner to the UK: The report is commendable, highlighting the need to reverse, as a matter of urgency, the deteriorsting living conditions, particularly of the most vulnerable, including women in African society, and to ensure the new strategies include the concerns of adjustment with a human face.

It also makes very sobering reading: weak growth in productive sectors, for example, shows in redneed shares in exports and loss in export earnings of a magnitude arguably equal to the deht service of Africa.

The report also highlights the excruciating debt problems of Africa on both the low and middle income countries. In spite of the fact that the bulk of African debt is long term, roughly 70% of total debt is at market rates of interest. The result is debt service obligations reaching levels where they could just not be met.

I welcome the proposal that "new and closer forms of collaboration should be devised to ensure that policy is continuously reviewed". To be effective, some very radical changes will have to take place in the thinking and formation of Adjustment Programmes by the Bretton Woods Institutions. It will be essential to restore fruitful dialogue between adjusting countries and the Bretton Woods Institutions.

■Roy Trivedy, Development Policy Unit, Oxfam: The report indicates some important new policy directions, but with few exceptions it treats Africa as a homogenous continent, failing to take into account variations between countries and regions.

The report notes the cost of conflict in destabilisation in Southern Africa, hut there is little discussion about this.

It emphasises the notion of "shared responsihility" for Africa'e economic crisis, but there is little discussion of the donors' share of this responsibility – issues such as high interest rates, the decline in the terms of trade, the persistent decline in commodity prices.

The section on agriculture does not adequately take into account the many constraints on most smallholder farmers, and most of the report's measures refer to medium- and large-scale farmers. The report displays the Bank's hias in favour of the private sector and market-led solutions, which are not necessarily appropriate in Africa.

We are encouraged to see some discussions of snbjects which are rather new arrivals in Bank parlance: equitahle growth, investing in people, fuller account of the social impact of reforms.

Even 'model pupils' are not proving the case for adjustment

NEVER before has the gravity of Africa's economic crisis been so starkly illustrated as in the World Bank report published today. Less clear is whether Africa, on the basis of existing and projected external assistance, is capable of reaching the objective of "sustainable" growth set out in this 300-page study.

The debate most likely to ensue involves the achievements of the Bank's recovery programme to date, and the case it makes, implicit rather than explicit, for linking aid to honest and open administration.

Four central questions arise:

■ Is structural adjustment really working in the 30 or so countries which, to varying degrees, are implementing the policies drawn up and backed by the Bank and the International Monetary Fund?

■ Are the external resources being made available to Africa sufficient?

■ Are the governments now in place capable of presiding over the institutional changes – such as an independent judiciary and a free press – which the Bank sees as integral to the process of successful economic reform?

■ Should the Bank's call for "better governance" on the continent become part of the conditionalities attached to aid?

Two of the leading reforming governments are Ghana and Nigeria, held up by Bank officials as examples to the rest of Africa. Yet both examples raise disquieting questions.

Structural adjustment should lead to self-sustained growth, fuelled largely by the private sector. It is still not happening in Ghana, which has been implementing adjustment policies since 1983, supported by aid inflows of more than $500m annually.

Investment, which averaged 7.5 per cent of GDP in the 1980s will have to double to 16 per cent if Ghana is to achieve its growth target of 5 per cent a year.

The outcome of reform in Nigeria is of particular concern. The country is the home of one in four Africans. Per capita income has fallen to less than $300m compared (at constant prices) to more than $1,000 a decade ago. World Bank officials argue that adjustment policies, pursued since 1986 and designed to reverse the country's decline, are succeeding.

Notwithstanding the far-reaching economic changes carried out by President Ibrahim Babangida, the programme may well fail. The country's infrastructure is deteriorating, industry's plant and equipment is ageing and inefficient, government management is weak, and corruption is endemic. One economist has estimated that more than $15bn has left Nigeria during the past four years in the form of debt-service payments and capital flight.

Much is made, rightly, of the need to create the proper environment for the private sector, allowing it to become the main engine for growth. Hence the introduction of market exchange rates, abolishing price controls, reducing the role of the state.

But most of Africa needs massive investment in communications and utilities, and substantial assistance which allows its shopfloors to re-equip. Without this assistance the private sector will, for the most part, remain the feeble creature it is today, unable to survive trade liberalisation and unable to compete in the export markets the Bank urges it to seek.

The Bank's own assessment of funding needs for Africa in the 1990s is based on a growth target which it describes as ambitious, which would bring about improvements it describes as modest. The programme allows only a fine line between success and failure, as the Bank acknowledges. Given that the Ghanas and Nigerias are still making demands on donor resources, given that the Zaires and Zambias have yet to begin, given the special needs of the war-torn region of the Horn, and the countries of Angola and Mozambique, and given the worsening plight of the Sahel states, failure seems the most likely outcome.

This likelihood becomes even greater when considering the calibre of the governments involved. Most of the leaders head authoritarian regimes with weak and corrupt civil services. "Africa's lack of technical skills and lack of strong public and private institutions account more than anything else for its current predicament," writes the Bank. Put another way, Africa lacks the expertise required to extricate itself from this predicament.

It may be asked why any country is taking the adjustment medicine. The answer is partly because they have no alternative: "Maladjustment is more painful than structural adjustment," as one finance minister put it. It is also because financial assistance from the donors goes some way towards cushioning the risks that reform entails. It seems that the Bank is becoming increasingly concerned by the obstacles that these regimes place in the way of full and proper implementation of reform. It stops short of calling for linkage between aid and "good governance". But the logic of its case points in that direction.

Michael Holman

TEN FACTS ABOUT AFRICA YOU MAY NOT HAVE KNOWN

- Sub-Saharan Africa (450m people) produces $135bn worth of goods and services in a year - the same as Belgium (10m people).
- One in 200 women die from complications in pregnancy or childbirth. That's 150,000 a year. In China one in 2,200 die this way.
- Africa has nearly seven cars for every 1,000 inhabitants; South Korea six, India two, Bangladesh 0.3.
- There are 200 regional organisations for co-operation and integration, but intra-regional trade's share of total trade is the same as it was 20 years ago.
- Africa had 100m inhabitants in 1900: it will have a billion by 2010.
- Half of rural development projects financed by the World Bank by 1987 had failed.
- Sub-Saharan Africa, with one tenth of the world's population, accounts for a third (nearly 4m) of all refugees. A further 12m Africans are displaced.
- Africa's share of world markets declined from 2.4 per cent in 1970 to 1.3 per cent in 1987.
- More than 80,000 donor-funded expatriates are working in Africa.
- Fewer than 20 per cent of attempted telephone calls get through.

Source: World Bank Report

TWO KOREAS AGREE EXCHANGE OF FAMILY VISITS

Seoul and Pyongyang edge a little closer

By Maggie Ford in Seoul

SOUTH KOREA yesterday accepted all proposals made by communist North Korea over an exchange of family visits, a concession which could pave the way for a hreakthrough in relations between the two sides.

At an all-day border meeting in the demilitarised zone under the auspices of the Red Cross, the two sides agreed that nearly 600 people from each side will exchange visits to Seoul and Pyongyang next month.

Seoul accepted the North's proposals on the numbers of people to be exchanged, on accompanying art performers, media and officials, along with television coverage of the event. But the two failed to reach agreement on the performances. North Korea wished to perform a revolutionary opera based on the fight of President Kim Il Sung against Japanese colonialism, which the South deemed unacceptable.

The two sides will meet again next week to try to narrow differences. Under the basic plan, a Red Cross meeting would be held in Pyongyang shortly after the family visits on December 8, followed hy a conference in January in Seoul. These meetings would discuss more permanent arrangements for the exchange of letters, telephone calls and visits by divided families.

About 10m of South Korea's 43m population have relatives in the North. There has been little contsct since the end of the Korean war in 1953.

North Korean Red Cross delegate Pak Yong-su announces the agreement

The two sides agreed on the criteria for selecting families eligible for reunions and on the number of performances by the art troupes, which would be devoted to traditional Korean culture, not critical of either side. The performances would be telecast live in both countries.

If a deal is agreed, the exchanges will be the first since 1985 taking place in a completely changed international atmosphere, in which barriers between East and West are rapidly breaking down.

They follow efforts by President Roh Tae Woo, at present visiting West Germany, to put forward s policy of rapprochement towards North Korea and other communist nations.

Diplomatic relations with Poland and Hungary along with economic links with the Soviet Union and China have been established since he introduced his *Nordpolitik* policy, modelled on West Germany's *Ostpolitik*.

North Korea and the US have also recently had tentative meetings in Peking and through third parties. The US stations 43,000 troops in South Korea.

● Parliamentarians from ruling and opposition parties yesterday agreed on a step by step programme for revising the South Korean National Security law.

The law bans contact with North Korea and other communist countries and has been used to persecute political dissidents. This year several people were jailed under the law for visiting North Korea.

Pyongyang has demanded revision of the law as a token of Seoul's sincerity in pursuing better relations, while Seoul has cited the tense military situation as the reason for the law's existence.

OVERSEAS NEWS

Japan's vehicle makers push machine tool industry into overdrive

By Nick Garnett in London

THE Japanese vehicle industry, the biggest in the world, has been introducing model changes of one type or another recently at the rate of about one hundred a year.

This phenomenal surge in new models and model updates from an industry that produced 12.7m cars and trucks in 1988 from its domestic plants alone is one of the main reasons why factories of all types right across Japan are now engaged in their biggest ever programme of retooling.

Japanese machine tool companies, the world's biggest producers of metal cutting machines, are now creaking at the seams from the weight of orders from their domestic market.

"We are working flat out. There is no spare capacity anywhere," says Mr Shinshichi Abe, executive director of the Japan Machine Tool Builders' Association.

The backlog of orders among the association's 118 members stood at Y463bn ($3.3bn) at the beginning of September, the biggest in the industry's history. Total orders in the six months to June were higher by almost a third on the same period last year. Quoted delivery times for some types of machine is now 18 months.

Output this year from all Japan's machine tool makers, which was Y723bn for the first eight months, will easily top the all-time high of Y1.05 trillion (million million) ($7.4bn) four years ago.

The bulk of this production is pouring into Japan's domestic factories rather than going for export. Yamazaki, the leading Japanese machine tool maker estimates that 70 per cent of production is for the domestic market, one of the highest domestic percentages for years.

West Germany is the only other country which comes remotely close to this re-equipment programme. Its machine tool industry, the world's second largest, is also packed to the gills with work and has an order backlog of ten months.

But 65 per cent of West German prodnction is exported and its own domestic market looks like being unchanged from last year.

By contrast, Japan's hunger for new production equipment has created a domestic market this year which could be 30 per cent higher than last year which itself was up a third on the relatively depressed levels of 1987.

Japan's vehicle makers have machine tool orders in the pipeline worth Y140bn ($980m). To put that in perspective that figure on its own is about three quarters of the likely total consumption of machine tools for all UK manufacturing industries this year.

The strength of demand from the vehicle industry flowa through into most sectors of Japanese industry. Every major change to car componentry requires some retooling among component suppliers and many subcontractors.

Fat order books in Japan's electronics and general machinery companies are also helping to fuel this huge re-equipment programme. The backlog of orders for Japan's car makers is up by a half compared with last year but it is also higher by almost 40 per cent for the even larger general machinery sector.

One issue is whether this general re-equipping will start another wave of low cost manufacturing from the world's most powerful manufacturing economy.

For one thing, three quarters of the order backlog of mschine tools is for so-called numerical control (NC) types rather than simpler, standard machines. Production in West Germany is about 50 per cent NC.

For another, subcontractors and small manufacturers are beginning to look at installing high-cost flexible production systems which use less labour.

French doubts over Shamir's peace plan

ISRAELI Prime Minister Yitzhak Shamir, who arrived in Paris yesterday ran straight into French scepticism over his Middle East peace plan, Reuters reports from Paris.

Arab states were likely to reject any settlement which did not start to resolve the Palestinian question, French President François Mitterrand told Mr Shamir.

A senior Mitterrand aide reported the French position after attending a lunch between the two leaders on the first day of Shamir's 48-hour visit to France.

The Israeli prime minister, fresh from a trip to the United States where the official reception was less warm than usual, left the Elysee Palace for talks with three European Community (EC) foreign ministers.

The various plans aimed at ending the Arab-Israeli conflict were certain to dominate his discussions with Mr Roland Dumas of France, Mr Francisco Fernando Ordonez of Spain and Mr Gerry Collins from Ireland.

Shamir: hopeful

Shortly before Mr Shamir's arrival, Mr Dumas said he backed US Secretary of State James Baker's five-point plan leading to elections in the occupied territories.

The Baker proposals are supposed to be confidential but authoritative leaks say they could be the vehicle for historic talks between Israeli officials and Palestinians.

"We are working on the basis of Mr Baker's plan which we must support and that is the line I will advocate to Mr Shamir," Mr Dumas said in a French radio interview.

The senior Mitterrand aide said later France still favoured an international conference as the best forum for resolving the Middle East conflict.

The Israeli coalition government accepted the Baker formula on November 5 but only on condition it scrupulously conformed with Shamir's own plan made public last May.

It offered elections in the occupied territories where the Israeli army says 544 people have been killed during a two-year Palestinian uprising.

But Mr Shamir's plan rules out any role for the Palestine Liberation Organisation (PLO) and does not recognise the right of Palestinian self-determination. This approach causes scepticism on the French side, the Mitterrand aide said.

"The difficulty with the Israeli approach is that, lacking an ingredient for the solution of the Palestinian problem, the Arabs are more than likely to reject (it)," he told reporters.

After the lunch, Mr Shamir said he was very satisfied with his talks with President Mitterrand. "Of course I know Mr Mitterrand's positions very well," he added.

French officials said a defence contract with Israel, which was made public by the foreign ministry in Paris on Monday, was not discussed.

Authorised in December 1988, the contract involves five French jet engines to be tested on the latest model of Israel's home-built warplane, the Kfir.

Chinese clamp down on currency

By Peter Ellingsen in Peking

CHINA'S booming currency black market has suffered a severe setback with a new Government regulation stopping Foreign Exchange Certificates (FECs), the money used by foreigners, being deposited in bank accounts and taken out as hard currency.

The Bank of China has made the ruling in a bid to wipe out the thriving illicit trade in which FECs are exchanged for Chinese yuan.

At any time of the year, touts offer varying rates of exchange. The FECs are then deposited in a bank account and later withdrawn as hard currency, usually US dollars.

Before the political crackdown in June, one FEC could be illegally swapped for around Yuan 1.8. Recently, the rate has fallen to Yuan 1.4 as official scrutiny increased.

The decision will affect Chinese who wish to change their yuan for hard currency in order to study overseas or buy hard-to-get imported goods. For foreigners, it will mean that FECs, once withdrawn, will have to be spent in China.

Sources said today that the new regulation allowed no more than half the FECs taken out of an account to be returned. But the rule is unlikely to end the illegal trade. "It will probably mean that the black market will have to shift to hard currency, US dollars I would think," one source said.

● Eight people have been sent without trial to labour camps and two others arrested for staging pro-independence marches in the Tibetan capital of Lhasa, according to the Chinese Literary Digest Weekly, Reuter reports from Peking.

The weekly said eight Tibetans were given terms of three to six years' "reform through labour" after marching round Lhasa's central Barkhor Square on October 14 and 15, shouting in support of an independent Tibet.

Filipinos likely to vote against autonomy

COUNTING in a plebiscite for regional autonomy in the Philippines entered its second day yesterday with election officials predicting only four of 22 eligible provinces and cities would join the plan, AP-DJ reports from Manila.

Mr Vicente de Lima, a senior Elections Commission official, said results from the southern cities of Cotabato and Zamboanga showed residents of both areas rejected the plan during Sunday's vote.

President Corazon Aquino never openly campaigned for the autonomy plan, which she proposed to satisfy demands for self-rule by 4m Moslems. The plan was in part aimed at ending the country's nearly 20-year secessionist Moslem rebellion.

Moslem rebels and many Christian leaders criticised the plan as inadequate. Other critics feared an autonomous government would not be economically viable if it were limited to impoverished and geographically separated regions.

Indonesian state businesses to help small enterprises

By John Murray Brown in Jakarta

INDONESIA yesterday moved to counter growing public criticism of the role of big business in the economy, announcing new measures to help small enterprises and agricultural co-operatives.

According to a decree issued by the Finance Ministry, state-owned corporations will have to give 5 per cent of their profits to support small companies with turnover of less than Rp300m ($165,000) and village co-operatives, which currently employ some 26m Indonesians.

The move, recalling socialist dogmas of an earlier era, is the first stage of what is expected to be a major restructuring of Indonesia's corporate sector. The Government is widely expected to follow up these measures with legislative curbs on the growth of large private businesses which have sprung np in the wake of recent financial and trade reforms.

Inevitably, any mention of big business in Indonesia is taken to mean the local Chinese who with 5 per cent of the population, are said to control 80 per cent of the non-state economy. Much of the recent surge in non-oil exports and domestic investment is by local Chinese companies. Equally, the majority of new listings on the Jakarta stock exchange have been by Chinese concerns keen to tap the equity markets for capital at a time of high interest rates.

Yesterday's announcement comes ahead of a proposed shake-out of Indonesia's 215 state companies, whose interests range from public utilities to trading houses, with assets of $80bn and turnover estimated at $20bn.

The plan embracing possible joint ventures with private companies and aven liquidation is to roll back the state, contain government budget costs and encourage private initiative. But the plan is not universally popular. Moslem and consumer groups as well as politicians argue the state provides a necessary counterbalance to the growth of private empires or conglomerasi as Indonesians call them.

"In Islam, greed is frowned npon, and monopolistic practices are nothing but greed and selfishness," said one official of Nahdlatul Ulama, Indonesia's largest Moslem group.

The Christian-based Indonesian Democratic Party, not to he outdone, said that if big business was allowed to enrich itself it would harm the interests of the state and the people.

Mr Johannes Sumarlin, the Finance Minister, who has master-minded much of the recent reforms defends private sector conglomerates on the grounds that they are more efficient.

Article 33 of the 1945 Constitution, often quoted by critics, states that Indonesia's economy is based on the "family" principle of state, private business and co-operatives. But in Jakarta the "family" most frequently talked about is that of President Suharto and particularly the business activities of three of his children who have been unashamedly exploiting the family name.

Clearly Indonesian policy makers are all too aware of the parallels with the Malari Incident of 1974 when student protests against big business and corruption in state companies turned into street riots during the visit to Jakarta of then Japanese Prime Minister Tanaka.

Palestinians charge Israel with export sabotage

By Hugh Carnegy in Jerusalem

EFFORTS to expand direct fresh produce exports from the Israeli-occupied territories to the EC – which ran into a series of obstacles last year – stumbled at the first hurdle yesterday when Palestinians accused the Israeli authorities of sabotaging the new season's first shipment of grapefruit from the Gaza Strip.

Mr Mansour Shawa, head of the Gaza Citrus Exporters Union, claimed security men at Ashdod had deliberately spoiled a 500-tonne consignment of grapefruit due to be loaded in a shipment worth $400,000 which was scheduled to sail for the UK and the Netherlands on Friday.

"They tore open cartons and threw fruit on the floor, It was a premeditated action. The authorities planned it," Mr Shawa said.

EC officials said last night they believed most of the shipment would be saved, but they would protest vigorously to the Israelis if there had been any breach of agreements on Palestinian exports.

Israeli officials said security was a port responsibility, adding their policy was to co-operate with the Palestinian export effort.

The Community first negotiated direct export channels for Palestinian producers – avoiding Israeli marketing organisations – last year, hnt total shipments during the season fell a long way short of the 16,000-tonne target amid accusations of Israeli obstruction and other inefficiencies.

Goverment sets new targets for UK job training

By Charles Leadbeater, Industrial editor

MR Norman Fowler, the Employment Secretary, yesterday set Britain's training system ambitious targets designed to improve significantly the quality of youth training over the next five years.

Mr Fowler said the targets would be achieved mainly by providing Training and Enterprise Councils, the local employer-led training bodies, more flexibility to modify the Youth Training Scheme for 16-18 year olds.

He said the Government was seriously considering plans for radical changes in the funding of youth training drawn up by a task force from the Confederation of British Industry, the employers' organisation, which would give each 16-18 year old a training credit which they could spend on the course of their choice.

Mr Fowler, speaking to the CBI annual conference in Harrogate praised the idea for giving young people more power as consumers of training as imaginative and attractive.

The scheme's quality has been heavily criticised in a number of recent reports. Leading employers have also criticised plans for TECs as too bureaucratic and restrictive.

Mr Fowler told the CBI conference in Harrogate that the four year programme to establish a national network of TECs, was well ahead of schedule. Ha said the councils would be set two significantly higher targets for youth training.

First to ensure that every young person up to the age of 18 should either be in full-time education or in a job with training; and to ensure that by 1995 every 18 year old should be able to get to vocational equivalent of five "O" levels, the old education qualification. At least half young people should get an advanced vocational qualification equivalent to "A" levels by 1995.

Mr Fowler said:"If we are to achieve these objectives, we must move on from the present Youth Training Scheme." The councils would be required to guarantee a place to all school leavers up to the age of 18.

The TECs will also be given fuunding to run the 40 compacts which have been set up between employers and schools, with the aim of creating a further 20.

Permission sought for new N-plant

By David Green

THE CENTRAL Electricity Generating Board has decided to press ahead with its application for government consent to build a nuclear power station at Hinkley Point in Somerset, despite an announcement by Mr John Wakeham, Energy Secretary, that further plants will not be built in the foreseeable future.

However, the board has decided to withdraw applications for two other pressurised water reactor (PWR) plants, Sizewell C in Suffolk and Wylfa B in Anglesey.

Anti-nnclear groups were expecting all three plants to be withdrawn following Mr Wakeham's announcement.

Mr Derek Davis of the CEGB Board acknowledged that if consent was given for Hinkley Point C the plant would not be built immediately.

He said the Board wanted to establish a future option for the new state company being set up by Mr Wakeham to run existing nuclear power stations.

Mr Wakeham has made clear that because of high costs no new plants will be constructed until a review of nuclear economics had been carried out in the mid-1990s.

Sizewell B, Britain's first PWR power station, is under construction and the Government has given the go-ahead for its completion.

It was to have been the prototype in a series of four PWRs to be built before the year 2000 at a total capital cost of £7.1bn.

The Board's decision to proceed with the Hinkley application follows talks with Mr John Collier, chairman of tha UK Atomic Energy Authority, who is to head the state nuclear company.

Both the Board and Mr Collier believe that to avoid substantial delay in the future, it would be useful to have a planning consent for the Hinkley site.

The decision over the future of the three nuclear power station applications was announced at the Hinkley Point C inquiry by Lord Silsoe QC, Counsel for the Board. Mr Michael Barnes QC the inquiry inspector, rejected an application from opposition groups for a week-long adjournment. They are now do to respond to the Board's decision on Friday.

Electricity users 'may enjoy price freeze'

By Hazel Duffy

DOMESTIC electricity consumers could enjoy a price freeze in the year from next April before the power industry is privatised.

Mr John Baker, chief executive designate of National Power, one of the generating companies which will emerge from the Central Electricity Generating Board after the sell-off, said yesterday: "There is obviously a good chance that electricity prices should go through next year without an increase."

But he was less reassuring on future prices to industrial consumers. Addressing invited industrialists to a breakfast briefing in Harrogate, where the Confederation of British Industry is holding its annual conference, Mr Baker said that big users of electricity had had a good deal over the last five years. Under the new commercial arrangements, he warned that it was not going to be so easy.

Electricity prices have been an emotive issue at past CBI conferences. The rises in the last two years, which the CBI leadership tried vainly to get the Government to moderate for industrial consumers, have been castigated hy Mr John Banham, CBI director general, as putting an "unnecessary burden" on industry.

Tha deal negotiated hy National Power and PowerGen – the smaller of the two generating companies after privatisation – with British Coal which in effect freezes coal prices for three years from 1990-91 unless the rate of inflation goes over 5 per cent, will be largely responsible for the prospect of stable prices.

The average marker price will be pounds 42.10p a tonne to the generating companies – a "breathing space" during which the coal industry must continue improving productivity, he added.

Less easy for National Power to predict are two other factors which will have an impact on electricity prices: wage increases in the electricity industry, and the effects of the revaluation of assets in the generating companies – still to be undertaken in preparation for privatisation. National Power will lose 40 per cent of its assets by the Government's decision to take the nnclear power stations out of the privatisation package. The current real return on assets is 4.75 per cent.

Statesman Healey to leave the stage of world affairs

By Ralph Atkins

TELEVISION'S first foray into broadcasting Commons' debates yesterday afternoon left unnoticed a grand, honoured parliamentary institution.

Mr Denis Healey, ex-Labour Chancellor, defence secretary and backbench intellectual ruffian, sat out of the limelight during the opening speeches. His legendary owl-like eyebrows were not picked out by the cameras.

The oversight was forgivable but unfortunate for students of post-war politics. The man frequently dubbed the best leader Labour never had, announced on Monday night an end to his colourful 37-year Westminster career. After the next election there will be neither wisecracks or insight from the sitting member for Leeds East.

Yet Mr Healey neither looks or behaves like 72 year-old pensioner-in-waiting. Of late he has been far more of a globe-trotting statesman and wit-spouting speaker, writer and broadcaster.

Earlier this year he was still being tipped as a future Labour foreign secretary - a cherished prize he never achieved. He plans to speak in Friday's foreign affairs debate.

His one-liners have become renown. Debate with Sir Geoffery Howe, former foreign secretary, was "like being savaged by a dead sheep". Mrs Margaret Thatcher was variously, "bargain basement Boadicea", "Catherine the Great of Finchley" or "La Pasionaria of middle class privilege".

As a target, the Prime Minister was easy game, he believes. "She has no sense of humour whatsoever. If you make a joke with a point at her, she metaphorically sticks her tongue out. She doesn't know what to say," he said.

His record as Labour party bastion and a Cabinet minister was less lovable. The low-point was as Chancellor in 1976 when Britain called in the International Monetary Fund. Not only did it bring him close to demoralisation but has often been exploited by opponents within the party and outside.

If his time as Chancellor left him permanently scarred, however, it does not show. "Most foreigners think I did a very good job," he said, adding that he only drew half of the IMF funds available and paid it all back.

More glorious was his time as defence secretary between 1964 and 1970 - a period he describes as the highlight of his political career. He was a strong minded departmental minister, albeit sometimes as the expense of Cabinet colleagues.

For three years from 1980 Mr Healey was deputy leader of the the Labour party. It was traumatic period for the opposition, rich in upheavals and internal disent from which a remodelled Labour party was to emerge. In 1983, however, he decided not to stand for the succession to Mr Michael Foot, the leader.

In retirement he plans to write and broadcast, following up themes in his recent biography on world affairs, financial regulation and party democracy.

But he does not want to be counted out yet. He believes there is still 2½ years until Mrs Thatcher goes to the country.

That leaves plenty of time for sallies against the Tories. "I shall try to give you something to laugh at from time to time," he promised.

Agreement on press ethics code

By Raymond Snoddy

THE EDITORS of Britain's national newspapers yesterday reached broad agreement on a new code of conduct and ethics for the national newspaper industry.

The agreement reached by editors of very different newspapers ranging from popular tabloids to the heaviest of qualities, includes, it is believed, a move towards the general introduction of readers' representatives or ombudsmen to deal with readers' complaints.

The discussions also covered the provision of "an opportunity to reply" to those who thought they had been unfairly treated. This falls short of an absolute right of reply and would be at the discretion of editors.

Mr Andreas Whittam-Smith, editor of The Independent and chairman of a committee of the Newspaper Publishers Association which drew up a draft code, said yesterday the editors had taken a major step in the direction of effective self-regulation.

The Independent editor described the meeeting as historic hut refused to giva details.

Two editors were designated to brief Mr Louis Blom-Cooper, chairman of the Press Council, the voluntary body that adjudicates on complaints against newspapers. The full code is then expected to be published.

The editors at yesterday'a meeting were concerned that their code would not be seen as an alternative to the activities of the Press Council. It was far from clear, however, how the code could be incorporated in plans to reform the Press Council.

The other areas covered by discussions included invasion of privacy and paying criminals for stories and pictures.

The drawing up of a code is designed to try to head off the threat of legislation. The Calcutt Committee set up by the Government is already looking into the whole area of privacy and the press.

Lloyd's to speed up settlements

By Patrick Cockburn

LLOYD'S of London, the insurance market, has introduced reforms to speed the handling and payment of claims. The market has been criticised for slow payment because of unnecessary paperwork.

The reforms will mean that the only requirement will be the negotiation and agreement with the leading Lloyd's underwriter on the slip and the relevant claims office although there will be some specific exceptions to this.

There will be separate but streamlined claims schemes for aviation, non-marine and marine sectors from July next year for all account years up to the 1991.

After 1991 there will be a unified claims scheme.

Mr Murray Lawrence, the chairman of Lloyd's, said: "In many areas – especially at times of big disasters – claims handling is second to none, but this new scheme is designed to ensure that areas of the market will operate at a consistent, high-level of performance."

Mr Robert Keville, chairman of the Lloyd's Insurance Brokers' Committee, said yesterday: "We believe that, as a result, there will be a significant improvement in the handling of claims, to the benefit of the policyholder, and in the speed and efficiency with which brokers will be able to perform."

● The Securities Association will today rule on whether two stockbrokers who face criminal charges over the Blue Arrow affair can continue to work in the securities business, writes David Waller.

Mr Timothy Brown and Mr Paul Smallwood of UBS Phillips & Drew were suspended by TSA earlier this month, but were allowed to continue working pending the result of an appeal.

Their appeal was heard yesterday by Sir Roualeyn Cumming-Bruce, a former appeal court judge. An announcement is expected this afternoon.


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THE MAIN POINTS

- National Health Service shake-up, increasing competition and local management. The Bill will empower health authorities to enter into contracts with each other, and with the private health sector, to encourage competition. Hospitals and other NHS units will be able to become separate trusts within the NHS, giving their managers greater freedom. Family doctors will be allowed to hold health care budgets, from which they would shop around for hospital and other care on behalf of their patients.
- Introduction of top-up loans for students. From next September, most of Britain's 500,000 undergraduetes will be eligible for a loan of £420 in a full year or £310 in the student's final year. Students will repay the loan after graduation, but this obligation will be deferred if their income is less than 85 per cent of the national average.
- Green bill on pollution and waste, introducing an integrated pollution control system and boosting local authority controls on emissions. The bill covers tighter controls on waste disposal, industrial emissions, the import and export of toxic waste, litter, the use of genetically engineered organisms and the storage of radioactive materials.
- Reform of industrial relations and trade union law, particularly in relation to unofficial action. The Employment Bill, curbing the trade unions' pre-entry closed shop and limiting unofficial strike action, will be the sixth tranche of legislation in the Government's step-by-step approach to labour market reform.
- Broadcasting bill to create a fifth national channel, a new Independent Television Commission and a new radio authority. The Government aims to provide for a wider choice of broadcast services, to strengthen the overseeing of programme standards and to reform the independent television and radio systems.
- Increased choice in the provision of legal services and streamlining administration of civil justice
- Food bill to strengthen safety and consumer protection
- Research into human fertilization and embryology
- Privatisation of Crown Suppliers, the Government procurement agency, and parts of the Property Services Agency

Tax cut pledge dropped in fight against inflation

By Philip Stephens, Political Editor

MRS Margsret Thatcher yesterdsy indicated that she would put the fight against inflation firmly ahead of further tax cuts as she set out the Government's plans for the next year with an uncompromising defence of its radical reforms.

With the glare of camera lights signalling the first live television broadcasts of the House of Commons, the Prime Minister underlined her determination to press ahead with a new programme of controversial legislation.

She offered a hint, however, that she might adopt a more emollient tone in negotiations with Britain's European Community partners in the hope of averting a major rift at next month's summit in Strasbourg.

Conscious of the fragile truce within Conservative ranks on policy towarde Europe, she tempered her firm opposition to plans for a EC-wide social charter and for full monetary union with a suggestion that compromises might still be possible.

The legislative programme, outlined in the so-called Queen'e Speech, in which the monarch outlines plans for legislation in a speech written by the Prime Minister, provides for at least 15 important parliamentary bills. It confirms that reform of the National Health Service and liberalisation of the broadcasting industry.

But the Speech dropped what had become a traditional reference to the expectation of further cuts in income tax rates; Mrs Thatcher insisted that control of inflation was the "absolute priority."

The ommission - approved in advance by the Treasury - was taken by senior ministers as a clear warning that next March's Budget will not offer any significant reduction in the tax burden.

Speaking in the debate which followed the State Opening of Parliament by the Queen, both Mrs Thatcher and Mr Neil Kinnock, the Labour leader, appeared to tailor their performances to the new television age - it being the first ever debate televised from the House of Commons.

The tone of the speeches delivered by the two main party leaders was markedly more reserved than that in recent clashes during Prime Minister's question time.

Both dealt at length on the implications of the unfolding drama in Eastern Europe, and on the need for concerted action by Western nations to foster the onset of democracy in countries behind the rapidly disintegrating Iron Curtain.

Mr Kinnock accused the Prime Minister of being "dragged behind" her EC partners and of being unwilling to adapt the Government's defence policy to changing circumstances.

Mrs Thatcher, however, responded that it was vital amid the great uncertainty in Eastern Europe that the West should combine aid for those countries which were embracing democracy with maintenance of firm Nato defences.

While strongly defending the controversial measures in the programme Mrs Thatcher emphasised that many of the other bills would respond to demands from the public for an enhanced "quality of life."

Those measures - particularly the bills providing for much tighter environmental safeguards and for improved food safety - are seen as providing the background for a major shift in the presentation of the Government's policies in the run up to the next election.

○ The Conservative Party's backbench 1922 Committee is expected to open the way tomorrow for a possible leadership challenge to Mrs Thatcher - the first in her 15 years as party leader.

Amid rumours at Westminister that a "dissident" backbench MP may mount a symbolic challenge to the Prime Minister, the 1922 Executive was said to be concerned that if a contest looked likely it should be held as quickly as possible.

Many MPs, however, still doubt that anyone will be prepared to challenge Mrs Thatcher while there is little doubt that she would comfortably defeat one.

From deep in parliament's heart to your own armchair

By Christopher Dunkley

ENGLAND, in John Bright's famous phrase, is the mother of parliaments. But it has taken Mum an awful long time to coax her daughter on to the modern equivalent of the stage.

When the television cameras finally sent out their first pictures yesterday it seemed for a while that those who had so vehemently resieted their installation, claiming that they would turn MPs into an even more vain bunch of prima donnas, were right.

Not that they looked as grand as opera singers; more like public school boys playing up in front of some important dignitary. The object was to prove that they were not overawed by this famous newcomer. The result – during the first half hour, anyway – was eome vintage knockabout material.

The Speaker of the House, Mr Bernard Weatherill, who looks set to become as much a star of television as his predecessor was of radio, tossed his ceremonial wig and scolded "This back chat from a sedentary position does not enhance our proceedings."

By n procedural trick Labour's Mr Bob Cryer managed to grab the honour of being First British MP Live On Screen From The Chamber, but the first formal speech came from Conservative member Mr Ian Gow. Before any mention of the Queen's Speech he quoted from an advertising circular encouraging MPs to take a course in television skills, asserting that voice and body language counted for 38 per cent of impact and the actual content of the speech for only 7 per cent.

The coaching outfit also promised "You will learn if you need a new hairstyle," and at this Mr Gow paused and lowered his glistening bald head, waited, and then added "And when to get it!"

The Chamber roared, and for the viewer at home it did indeed become difficult, just as the opponents of parliamentary TV had warned, not to admire the man for his delivery rather than his politics. Would Mr Gow, the irreverent thought floated by, be able to sell the great blank space on his head to a sponsor if he keeps pointing it at the camera like that?

But as soon as the debate got into its stride, with Mr Neil Kinnock, the opposition Labour Party leader, on his feet, flinging his scornful phrases into the faces of the Government across a table little bigger than you would find at a dinner party, the magic of the old cockpit began to seep ont through the screen straight into the sitting room.

These faces, you suddenly realised, as familiar as those of pop stars and comedians, belong to real people with real passions who talk real politics. Listening to Mr Kinnock'e disdain for the Government'e plans, and seeing him direct his ridicule at a woman sitting barely 10 feet awny – "I understand why she has taken to calling herself 'we', it's less lonely that way" – the spirit and the methods of the House became clear.

Intimate and deeply personal debate has always been at the very heart of the British Parliamentary syetem and here it was, right bang in front of your own armchair.

Just as everybody predicted, Mrs Thatcher did come off worse than Mr Kinnock. In the Chamber she cannot use the carefully learned technique of the sincere whisper which is so effective in the television studio.

Yet she scores in other ways. An amazing number of Labour members flung themselves against the knife-scything wheels of the Thatcher chariot, leaping up to intervene, finding that the lady gave way gracefully, discovering too late her skill at massive retaliation.

After only one afternoon it is already clear that the rules about what we may and may not see are, as so many have argued, far too strict, not only for the good of the viewer but for the proper image of the House. Yet all that can easily be rectified. What also seems clear after only one day is that the cameras will, surely, never again depart.

Small screen, big stage: Kinnock flings a phrase across the floor

A reforming session, with re-election in mind

By Our Political Editor

THE frenetic pace of the the Government's legislative programme since 1987 is beginning to slow as Mrs Margaret Thatcher adjusts her focus to the next general election.

But there is still enough radical, reforming "Thatcherism" in the plans laid out yesterday in The Queen's Speech to ensure another year of hard political battles.

The background to this years statement - a resurgent Labour party, the prospect that 1990 will be the worst year for the economy since 1982 and continuing sharp divisions within Coneervative ranks over Europe - has rarely been less favourable for the Government.

The possibility that Mrs Thatcher may face an, albeit token, challenge for the leadership is seen among Tory and well as opposition MPs as underlining a dramatic erosion of the "triumphalism" which followed her 1987 election victory.

That in part can be attributed to traditional mid-term blues. Few at Westminister forget the extraordinary revival in the Government's popularity which quickly followed the dark days of the crisis over the rescue of the ailing Westland helicopter company in January 1986.

There is private acknowledgment among senior ministers, however, that the hill will be significantly harder to climb this time round. So the Government's judgement in framing its latest programme has heen based on two essential calculations.

The first is that virtually all of the remaining controversial legislation it plans for the present Parliament has to be sqneezed into this session. Delaying it any longer could close the option of calling a "snap" general election in the spring or summer of 1991.

Thus reform of the National Health Service, the restructuring of the coal industry, the plans to liberalise the broadcasting industry and legal services, and to introduce student loans were all included in yesterday'e speech.

So too has the difficult legislation to introduce the recommendations of the Warnock report on human embryo research - the opportunity for a bitter, though cross-party, debate on abortion.

In theory, the number of bills foreshadowed in yesterday's speech - 15 - provides no real guide to the actual weight of the legislative programme.

Last year, for example, the Government gave advance notice of 16 bills but then went on to enact 31. It is already clear that a number of other measures - including new legislation to extend the right of abode in the UK to key groups in Hong Kong - will be announced later in the present session.

The expectation, however, is that the Government will be less ambitious during this session.

Thongh few ministers believe that the economy will permit an election before the Autumn of 1991 - and many have now pencilled in the spring of 1992 as tbe most likely date - tbe option of an early poll has to be kept open.

That means ending the present session in perhaps October of next year to allow a truncated, less controversial, programme in the immediate run up to the election.

Not everything, however, is being left until the last moment. While the last session of Parliament had few overtly popular measures to counterbalance those such as water privatisation, the latest programme has been framed with at least a glance towards securing a fourth term.

The "Green Bill" and the planned Food Safety bill are both designed to demonstrate tbat the Government is responding to growing public concern about the "quality of life."

Althongb tbey will be attacked by Labour as inadequate, the Government hopes such measures will provide the foundation for a marked shift of emphasis in the presentatioo of its policies in the run up to the election.

That said, both the timing and the eventual outcome of the election are expected at Westminister to depend mucb more on the level of mortgage rates than on the contents of yesterday's Queen's Speech.

Private satellite links to be freed

By Hugo Dixon

PRIVATE telecommunications satellite users will be given more freedom under a package of measures soon to be announced by the Government.

The most important measure would allow satellite operators to provide communications links across Europe. Users are at present restricted to offering services within the UK.

Although the Government licensed seven private satellite operators last year, most have yet to provide a service because they are so hemmed in by red tape. The Department of Trade and Industry plans to cut through most of the red tape, partly to keep up with developments in West Germany where most controls on satellite services have been removed.

The ban on providing international services has limited the attraction of the new services to users, according Mr Paul Franklin, who is in charge of satellite services at EDS, the US telecommunications group which won one of the licences. Multinational companies headquartered in London wanted to link their European operations and were less interested in a UK-only service, he said.

Private satellite services could be a particularly effective way of linking Europe-wide operations.

Instead of negotiating to lease private cables from different state-owned monopolies each with different technical standards, companies would simply give each of their European branch offices a satellite dish.

In the US, where such satellite services are common, companies use them to transmit moving pictures, data and voices. They are used particularly the automotive, banking and electronics industries.

The seven private satellite operators are: British Satellite Broadcasting, British Aerospace, Satellite Information Services, Uplink, EDS, Kingston Communications, and Maxwell Satellite Communications.

Knitting industry 'crisis deepening'

By Alice Rawsthorn

THE UK knitting industry is in the midst of a crisis of "unprecedented proportions" and its condition is deteriorating, according to a leading industry figure.

Mr Carl Brewin, president of the Knitting Industries Federation, told its annual general meeting in Nottingham yesterday that the industry had plunged into a "deepening crisis" which, he said, had become "much deeper than our gloomiest predictions."

There have already been more than 10,000 job losses – representing 12 per cent of tha knitting workforce – across the industry in the last 18 months. Mr Brewin warned there was likely to be "further deterioration" before the knitting companies returned to stability.

The £1.6bn industry, which is based mainly in the east Midlands and on the Scottish Borders, has been in an increasingly precarious state for nearly two years.

The main problem was at first the high value of the pound against the dollar and related Asian currencies, which prompted a rapid rise in imports of knitted garments.

But the industry has also suffered from depressed demand due to the swing in fashion away from chunky knitwear and the impact of two successive years of mild winter weather. The recent slowdown in consumer spending, in response to increased interest rates, has intensified the pressure on demand.

Mr Brewin said that the knitting companies managed to maintain output last year – although profitability came undar pressure – hnt there had been "an acute decline in sales" since spring. Similarly, he said, exports have fallen in real terms because of the volatility of the pound.

In recent months the knitting industry has been hit by a series of cuts and closures. Earlier this month T. W. Kempton, one of the largest knitwear manufacturers in the east Midlands, was forced to call in the receivers, threatening the jobs of its 1,200 workers.

BT to offer advanced services

By Hugo Dixon

AN ADVANCED telecommunications service capable of carrying picture telephone conversations, high-speed facsimile and coloured diagrams will be offered from next April, British Telecom confirmed yesterday.

The Integrated Digital Services Natwork, uses existing copper telephone wires to offer a mixture of picture, voice and data traffic.

British Telecom's ISDN service will start on a pilot basis at the end of this month, leading to the launch of a commercial service next April. It will be able to link with similar services in France, the USA and Japan, which have progressed more quickly.

ISDN – aimed mainly at small and medium-sized businesses – will be able to carry two separate communications channels along each copper wire. Each of the channels can be used for either data, pictures or voice.

Calls will be charged at the same rate as for an ordinary phone hnt connection and rental charges will be higher.

● Six hospitals pioneering cost efficiency methods in the National Health Service are having difficulty in recruiting enough full-time computer staff.

The six are pilot sites for the Government's resource management initiative which aims to make the health service more cost effective by enabling staff to make better-informed decisions.

Recovery in oil output boosts growth in GDP to 1 per cent

By Patrick Harverson, Economics Staff

A RECOVERY in North Sea oil production helped the British economy grow by 1 per cent during the summer, but the annual rate of economic growth as measured by output is still the slowest for nearly four years, official figures indicated yesterday.

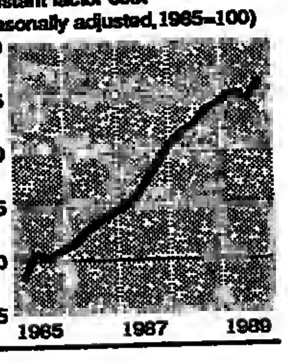
The Central Statistical Office said that its preliminary estimate for gross domestic product (GDP), measured by the output of goods and services, rose 1 per cent between July and September. This compared with a fall of 0.2 per cent in the previous quarter.

The third quarter rise took the annual growth rate to just below 2 per cent, the slowest rate since the first quarter of 1985 and less than half the 4.3 per cent annual growth achieved last year.

If the contribution from oil and gas production is excluded from the calculations, GDP growth was almost flat in the third quarter. The CSO said that the non-oil economy grew by 0.3 per cent in the period July to September, to a level 2¼ per cent higher than in September 1988.

UK GDP

Constant factor cost (seasonally adjusted, 1985=100)



The rise in energy sector output during the quarter was 5½ per cent, an illustration of the recovery in oil production since last year's Piper Alpha oil platform disaster and other problems curtailed North Sea output.

The CSO said that between July and September the output of the production industries was 1¾ per cent higher than the previous quarter. Manufacturing output and services output both rose ½ per cent during the period.

The seasonally adjusted preliminary output-based measure of GDP in the July to September period stood at 116.0 (1985=100), against 114.9 in the previous three months.

City forecasts unemployment rise

ECONOMIC forecasters in the City of London appear slightly more optimistic than the Treasury about growth next year but they think unemployment will rise by 150,000, writes Simon Holberton.

According to the latest Treasury compilation of 11 City forecasters, the level of gross domestic product should be 1.8 per cent higher in 1990 compared with 1989. In the Autumn Statement, the government's outline of spending plans announced last week, the Treasury forecast a 1.25 per cent growth in GDP next year.

The City expects both personal and Government consumption to be more buoyant than the Treasury, while it believes gross investment will, at 0.9 per cent, grow by nearly half the rate of 1.75 per cent forecast by the Treasury.

Inflation is expected to be around 5 per cent in the fourth quarter this year, compared with a Treasury forecast of 5.75 per cent. But unemployment is forecast to rise to 1.85m from 1.7m this year.

The current account deficit is £14.5bn in 1990, about the same as the Treasury expects (£15bn). Growth in the volume of exports is forecast to be 5.6 per cent in 1990, while imports are forecast to grow by 2.8 per cent.

By the end of next year the City expects sterling to have lost a further 6.5 per cent of its value against other currencies. On the Bank of England's trade-weighted sterling index City forecasts expect the pound to be at 84 compared with 89.8 for the fourth quarter this year.

The Jobs column and Recruitment Advertising will appear on Friday 24th November

TECHNOLOGY

Della Bradshaw examines the arrival of electronic hand-held personal computers and diaries

A tale of gadgets past and future

For devotees of electronic wizardry Christmas has come early this year, with the high street electrical stores packed with hand-held computer gizmos.

For many a high-tech executive, who believes the microchip is the natural successor to the ball point pen, mastering the equipment is just part of the fun. But will the complexity of operating these hand-held gadgets result in the more conventional manager tossing them into the back of the desk drawer once January arrives?

Manufacturers of electronic organisers and pocket-sized personal computers have been beavering away to make sure that does not happen. Many have used innovative techniques to ensure that their machines are as easy to use as pen and paper.

At the heart of the technical issues has been how to make the machines small and light without compromising on the features. Of particular concern has been the keyboard design, the size of the screen and the battery life.

The market breaks down into two main types of product. One is primarily for electronic diaries; the Organiser, from Psion, of London, the digital diary, from Casio of Japan, and the Sharp IQ (sold as the Wizard in the US) fall into this category. They are comparatively cheap – £100 to £200.

And they are proving popular – Psion alone sold 147,000 of them last year. "For me the Sharp IQ is an electronic Filofax," says Daryl Foster, a director at London minicab firm Addison-Lee, of his Sharp IQ. "It's much better to carry one of these around than a million pieces of paper."

Although described as pocket-sized, with many models this is stretching a point. Nevertheless, most fit easily into a handbag or briefcase. Their keyboards are arranged alphabetically. The Casio models are the exception with a "qwerty" keyboard similar to a typewriter or desk-top computer. The different models perform a variety of other tasks – they can be calculators, alarm clocks or telephone directories.

The other category includes the Psion mobile computer (MC) and the Poquet Computer, from the US. Both have pretensions to be hand-held computers and have been nicknamed "palm-top" PCs. Their aim is to combine full-sized computer features into the smallest amount of space. They have a qwerty keyboard and most are IBM PC compatible. They can cost up to £1,500.

The layout and size of the keyboard largely determine the uses of the machine. The Psion MC, for example, has a full-size keyboard and could easily be used for typing. As a result, it is the size of an A4 notebook and weighs nearly 2kg.

The Pocket PC, from DIP, of Guildford, also sold by Atari as the Portfolio, is only eight inches long but has a qwerty keyboard. Like most models it folds in half like a clam shell with the screen incorporated in the lid and the keyboard in the base. The machine could be used for writing a letter, says Oliver Tucker, sales manager for DIP. "But I wouldn't want to write a book on it."

The small keys and the limited liquid crystal displays of the least expensive electronic diaries have proved difficult for some people to see and use. And even for the more agile, the time required to key in a large amount of data can be considerable. To alleviate the problem, the manufacturers have introduced communications leads so organisers can plug into a desk-top PC and send data either way – an address list could be dumped from desk to pocket, for example.

One possible solution to the typing problem has been incorporated by Microwriter in its Agenda organiser. As well as the numbers and letters (laid out in calculator format), it incorporates its own specially-devised five-key system. Different combinations of the five keys represent different letters.

Although the Microwriter concept was a commercial flop when introduced for general computing applications in the early 1980s, the company is hoping its hour has come in its electronic organiser role. "When you reduce the machine to this size (less than seven inches) you're hunting and pecking for the keys," says Allie Oldham, marketing executive with Microwriter. "You end up with your index finger falling off, even if you have a qwerty keyboard."

Instead of concentrating on making the keyboard easy to use, Psion has adopted another technique from desk-top computing in one model of its MC range. It has decided to incorporate icons – pictorial representations of a calculator or document. To indicate the required icon, the Psion machine uses a touchpad built into the keyboard. If, for example, a file is needed, the user touches the section of the pad which corresponds to the filing cabinet on the screen – say, in the top left corner.

Another problem, particularly with the smaller machines, is the battery life. Some users complain that when the batteries run down they cannot reach the data until a new set is inserted. With the Psion Organiser, the new batteries have to be inserted in 90 seconds or the data can be lost.

Others worry that because of its small size, the machine can easily be lost, and with it the data. Sharp, for example, has introduced extra datacards to expand the memory, but they cannot be used as a back-up system for copying information.

Psion's MC and the Poquet machine have tried to overcome the short battery life by incorporating an energy management system which switches off the machine when it is not being used – even between individual keystrokes. As a result the MC can run for up to 60 hours on one set of batteries.

To cut power consumption even further, the two companies have done away with traditional add-on memory units – the equivalent of mini disk drives – which are notoriously power hungry. Instead they use semiconductor memory – chips on cards the size of a credit card which plug into the gadget.

Psion is the first company to use a chip technology developed by Intel, of the US, called Flash Eproms. They allow the memory on the chip to be wiped clean by a flash of electricity. Once the memory is full, the data can be transferred to another machine so that the card can be cleaned and filled with new data.

These card units also allow large amounts of data (500 kbytes per card, for example) to be stored without increasing the size of the machine. With the cheaper electronic diaries, extra memory means extra bulk. The DIP machine has 128 kbytes of in-built memory; to add another 640 kbytes means adding an extra unit the size of a cigarette packet.

A third type of hand-held machine is the new breed of financial advisers – glorified calculators for the financial sector. At around £100, Hewlett-Packard's Business Consultant or Texas Instruments' Financial Investment Analyst are no replacement for your local broker, but they could provide a useful addition to a jobbing accountant's electronic armoury. They play a role as a portable adjunct to, rather than a replacement for, PC-based financial packages.

Since most of the machines have been launched over the past six months, this Christmas will be the first true test of their popularity. But their immortality is assured; one has already starred in print.

In Dick Francis's novel, Straight, the outcome would have been completely different if it had not been for the role of the trusty electronic organiser.

ALTHOUGH promoted as tools for making individuals more productive, many organisers and pocket PCs are appearing on the shopping lists of corporate purchasing departments.

In the UK, Psion has taken advantage of being first into the market and has made considerable inroads into the corporate sector. About half the *organisers sold last year* were bought by companies rather than individuals.

Electronic organisers have proved particularly popular in the retail sector, with companies such as Marks and Spencer, Debenhams, Alexon, and Benetton all using these electronic gadgets, mainly to store information on stock and pricing. Marks and Spencer, for example, is using more than 11,000 Psion units at its tills in case cashiers need to check the prices of items.

Others are using these electronic gadgets for stocktaking, or in conjunction with barcode readers for stock control. When an item is sold – and the barcode read – the item description and number is fed into the memory of the diary so it can calculate the stock remaining.

***Both in the financial and commercial* sectors sales staff are using the hand-held gadgets to store data for on-the-spot quotations – be it for an insurance policy or a double-glazed window.**

Yet this is just the tip of the iceberg. Psion, for example, is considering incorporating a pager into its units, which would mean data could be sent across the airwaves to the hand-held computer. This would allow a secretary to update an executive's diary. Or enable a credit card company automatically to update the list of stolen cards as soon as they are reported. Small retailers or restaurants could then check whether a card was stolen without the need to install one of the counter-top machines connected by phone line to the credit *card company's central database.*

Going one step further, the most sophisticated of Psion's mobile computers can talk, using digitised voice techniques so that users can annotate text held on the machine. Eventually the box of electronic wizardry could be used as a mobile answering machine, or even used with other forms of mobile communications.

Low-cost X-rays come into view

The World Health Organisation has developed a low-cost high-performance X-ray system that could substantially lower costs for NHS hospitals.

The machine, known as the WHO-BRS, was initially designed to make vital X-ray examinations more widely available to people in developing countries. For over two-thirds of the world's population X-ray equipment is not available.

The system comprises X-ray and film processing and viewing equipment, plus manuals on radiographic techniques, darkroom operation and film interpretation. Cost is low because the system does not use electromagnetic brakes, electric motors or complex moving grids. It uses a smaller generator and has been simplified to handle most X-rays.

The system uses an X-ray tube with small focus spot. The distance is fixed to make it simple to operate. "The equipment has been designed to eliminate many of the things which are hard to maintain," says Dr Gerald Hanson, chief of radiation medicine at the WHO. He points out that lengthy training is unnecessary – "superb quality X-rays can be taken anywhere in the world by people with a minimum of training."

Apart from the X-ray tube and generator, all moving mechanisms are non-electrical and can be easily maintained. To cope with irregular electricity supplies in many areas of developing countries, the system uses a generator operated from a standard mains supply or from lead-acid or nickel cadmium batteries.

"Batteries mean that the system can be used when there are fluctuations in electricity which would cause lower-quality X-rays to be produced," says Hanson. The batteries provide enough current for 200 X-rays a week – twice the average workload of small hospitals – without recharging.

The WHO says that the BRS can perform over 80 per cent of X-rays at a large hospital and almost 100 per cent of those required at small hospitals. "It is only the last 10 per cent or 20 per cent for which the extra [mechanisms] are needed and it is that last small number which accounts for more than 80 per cent of the cost of complicated X-ray equipment," says Professor PES Palmer of the University of California at Davis's department of radiology. He believes that the WHO/BRS "provides one of the most sophisticated yet operatively simple X-ray sets which has ever been manufactured."

The system was first tested in Colombia in 1983 and has since been tested in more than 20 industrial and developing countries. Radiologists at the 800-bed Northwick Hospital in London were shown X-rays produced by both conventional and BRS systems. According to a WHO report, the images produced by the WHO/BRS system were considered by the radiologists to be "excellent" in 20 per cent of the examinations, compared with only 6 per cent for conventional equipment.

The device also appears to cut down excessive irradiation of patients. A WHO report says that in tests in Britain, France and Italy, patients for abdomen, lumbar spine and lumbosacral joint X-rays received between one-quarter to one-third of the radiation that they would have received from conventional equipment.

Although the WHO-BRS has outperformed conventional X-ray equipment in many tests, manufacturers have been slow to produce it or to price it competitively, says the WHO. Only about 500 are in use worldwide. "We do not understand the marketing psychology," says Hanson.

Conventional X-ray equipment costs more than $100,000. "The WHO-BRS could be produced in developing countries for around $10,000," says Hanson. "Currently the system is selling for $50,000 or more. We feel there is a large gap between production costs and selling costs. The system could be sold for 40 per cent less than it is now."

Six manufacturers of conventional X-ray equipment are producing the WHO-BRS. According to Hanson, however, only Philips Medical Systems and Siemens currently offer "a satisfactory installation including maintenance and repair." Hanson hopes that manufacturers in developing countries will start manufacturing the equipment themselves.

John Madeley

TECHNOLOGY MARKET

TSB Group

Set on a make or break strategy

Steeply rising costs and a profits downturn have prompted the UK financial institution to embark on another round of sackings and further restructuring. **David Barchard** examines its prospects

Seldom have stock market expectations turned into so great a disappointment. When the TSB Group was floated on the stock market in September 1986, a move which transformed a patchwork of 70 regional savings banks into the sixth largest UK clearer, there was great optimism among the bank's executives and investors.

Three years on, there is little to be optimistic about. Signs abound that TSB's performance is weaker than that of its competitors. The share price today is just 13p higher todsy than it was at the flotation, despite the upward movement of the markets since then. Interim profits this year were down from £212.1m to £164.5m. At just under 75 per cent, the group's cost/income ratio is nearly 10 percentage points above those of the other large clearers.

In retrospect it has become painfully clear that TSB went into the flotation with a group structure and a management team unsuited for the struggle to survive against the established clearing banks.

Yesterday's sackings and restructurings are the latest in a long series of measures aimed at creating a bank group which is tightly focused on the needs of the market. The job cuts and restructuring have an undercurrent of desperation to them. If these latest moves do not succeed in pulling TSB's performance into line with its competitors, the group's future will be murky. Its statutory five years' protection from predators ends in less than two years and it will look exceedingly vulnerable.

The group's future success or failure is generally agreed to lie in its banking operations (rather than its insurance and commercial subsidiaries) which account for more than 70 per cent of group profits and virtually all its balance sheet.

It is in the banking operation that changes have been most apparent over the past two years. Since 1986, TSB has shed almost all the long-standing top management inherited from the Trustee Savings Banks after a long series of internal struggles.

"Today, the TSB senior management team contains only one long-serving Savings Banker and 200 out of the top 300 senior and middle managers have been with the company less than four years," says Don McCrickard, chief executive of TSB Bank.

McCrickard is one of the key figures in the revamping of TSB. A former American Express executive, he made his reputation in the group by turning around UDT, its finance house subsidiary. Since he arrived at the TSB in the spring of 1988, his views on the bank's future have exercised a powerful influence.

Sir Nicholas Goodison: softer style and radical gestures

When TSB Bank, an umbrella organisation covering all group banking operations was created last May, McCrickard was the more or less inevitable choice as chief executive.

Retail banking operations are handled by Peter Ellwood, former chief executive of Barclaycard, hired last June.

"I went outside the organisation for a financial retailer, someone sensitive to the needs of consumers and someone capable of pushing through fundamental change necessary at the branch level," says McCrickard.

The most important change, however, was the arrival as group chairman last January of Sir Nicholas Goodison, formerly chairman of the London stock exchange. The style of his predecessor, Sir John Read, had been hands-on and autocratic. Sir Nicholas has a softer personal style, but his chairmanship has been marked by radical gestures.

His first big decision as chairman was to make a clear break with the past by sacking nearly 100 regional non-executive directors and chopping the TSB Regional Board structure, vastly enhancing the grip of the executive management.

TSB'S FINANCIAL PERFORMANCE

Year to Oct 31	1989*	1988**	1988	1987	1986	1985	1984
Total income (£m)	752.6	700.6	1,442	1,062	859	721	626
Total costs (£m)	562.6	459.3	977	667	563	471	411
Costs/income ratio%	74.7	65.6	67.8	62.8	65.5	65.3	65.6
Equity/assets ratio%	8.6	8.2	8.3	13.2	12.2	7.8	7.5

*Half year to April 30 1989; **Half year to April 30 1988

Soon afterwards the TSB group board was trimmed from 31 members to 17. In April the bank was given its present clearly delineated three-legged structure consisting of the bank under McCrickard; an insurance and services division; and a commercial division for its non-financial services subsidiaries.

Sir Nicholas had earlier sounded a surprisingly strong warning note. At the AGM of the group in March he told shareholders that lower half year profits were on the way and that costs were beginning to grow faster than income. Year end profits are forecast to be below last year's £420m.

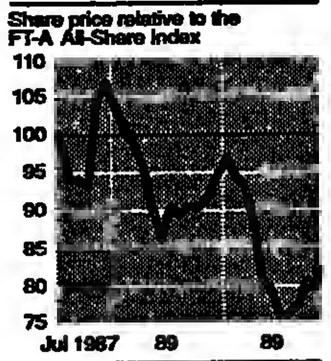
Meanwhile two major strategic reviews were commissioned, for retail banking and corporate banking. Conducted by full-time internal senior management teams, with some outside consultancy help, they exposed a plethora of problems, particularly on the retail banking side.

Out of a fairly lengthy list of problems facing the bank's retail operations, some of the most urgent appeared to be:

- A highly fragmented structure inherited from the former Trustee Savings Bank organisation. These included several different authorised banks each with its own head office, administrative centre, and computer centre. The tendency to the proliferation of local fiefs had actually increased in the run-up to flotation as the quid pro quo for gaining support for the change:
- Operating costs were unnecessarily high because of TSB's fragmented structure, and the duplicated or even triplicated sets of functions it gave rise to;
- The need to invest heavily in technology and branch upgrading was placing a second severe strain on the cost/income ratio;
- Many of the bank's 1,600 branches were badly located and substandard in appearance;
- An over-reliance on cheap customer deposits for profit rather than competitive pricing of products;
- There are also some problems with the bank's customer base which has a much larger proportion of lower income customers, classified in advertising terms as C2s and Ds, than the other large clearers. A particular gap is the student market in which long-term customer loyalties are forged, though TSB claims to be quite strong in the 16- to 24-year-old market nationally.
- The bank was not capitalising on strengths which it reckoned it had and most of its competitors did not, including an estimated two-year lead in on-line, real-time technology and a sales force in its branches cross-selling insurance and investment services to current account customers.

TSB

Share price relative to the FT-A All-Share Index



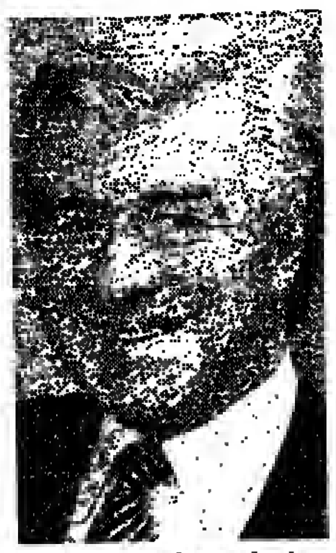
Corporate activities are now grouped inside Hill Samuel, the City merchant bank which TSB purchased around the time of the 1987 stockmarket crash. The absorption of Hill Samuel, which has a very different corporate culture from that of TSB, into the group is now far advanced.

Initially, Hill Samual employees were demoralised by the sale of the merchant bank and the circumstances which led up to it, but the integration of Hill Samuel into the group and the organisation of its entire corporate business under the Hill Samuel name has been one of the more successful parts of the reorganisation at TSB.

Hamish Donaldson, joint chief executive of Hill Samuel at the time of the acquisition, has been retained at the helm and he has presided over a refocusing of the bank's strategy in four areas of activity: commercial banking; investment finance; treasury operations; and corporate finance. Meanwhile numbers of employees in Hill Samuel have tumbled – from 2,000 in 1987 to around 1,000 today.

The job cuts were achieved by a series of strategic withdrawals. Since the autumn of 1987, Hill Samuel has pulled out of stockbroking by selling Wood Mackenzie to County NatWest (in February last year) and by earlier withdrawing from Eurobond operations and gilt market making in October 1987. Its share registrar subsidiary, Hill Samuel Registrars, was sold to Barclays Bank earlier this year.

Last autumn Hill Samuel merged its Treasury with that of its new owner, with Lord Cobbold coming from TSB to act as the head of the newly unified operation. However, the arrangement did not prove a success and Lord Cobbold left the post in the summer, though he remains on the Hill Samuel board.



Don McCrickard: exercised powerful influence on future

Meanwhile TSB has made a series of capital injections, both by transferring business to Hill Samuel and by providing capital intended to finance organic growth.

Hill Samuel's capital base of £282m in 1987 has grown to over £820m today. About half the new capital comes in the form of cash. Between April 1988 and April this year, its corporate lending book grew by 43 per cent to £4.2bn.

Hill Samuel is now embarking on a steady expansion of its branch network which has grown from 8 to 11 over the past year. The aim is to find business customers outside London which require flexible and sophisticated financial advice based on an expert knowledge of their industry.

"I am rather enthusiastic about our prospects," says Donaldson. "Wa should grow faster and more successfully from now on."

The results of the changes are as yet hard to measure. Group interim results last April showed Hill Samuel making profits of £20.9m compared with £17.3m a year earlier, though changes within the group make tha comparison somewhat misleading.

Donaldson's task looks relatively straightforward compared with that facing Ellwood in TSB's mainstream activity, retail banking.

The restructuring he announced yesterday of the retail banking operations of TSB is unlikely to yield quick results and it has attracted massive publicity. Ellwood has several aims in making his cuts. They include:

- A slimming down of TSB head office operations and the concentration of processing operations in 80 local customer services centres or "mini-factories", each handling work from about 15 different branches.
- Instead of the previous national organisation of seven regions and 54 districts, TSB now plans to have a structure of three regions and 21 areas. However, a reduction in tha size of TSB's branch network is not planned.

"We are constantly looking at the location of branches and opening new ones and closing others if they are not in ideal areas. I wouldn't expect any material drop in the size of our branch network," says Ellwood.

TSB is in effect operating an operational structure somewhat similar to that of its rival, Midland Bank, which announced plans early this year to transfer routine processing functions to regional "factories" so as to free up space and staff in individual branches to engage in a stronger selling role.

It is a strategy which contrasts markedly with that of the large clearing banks, other than TSB and Midland, which tend to be sceptical about the degree to which the processing of accounts can be hived off from branch operations.

To the TSB, however, the over-riding aim is to cut costs and achieve the tight managerial focus the bank has lacked until now. The reaction of its longer-standing cnstomars, used to a slow-moving and highly local branch operation, to these changes can only be guessed. Some observera believe TSB may be pulling up its roots too soon.

However, the changes are dictated by urgent priorities. According to Ellwood, tha restructuring should drive down the bank's high cost/income ratio and help boost the annual growth rate and pre-tax profits. "The intention is to make TSB's return on capital equal or better than that of our competitors," ha says.

The future of the bank as an independent hangs on his ability to achieve these changes within a relatively short period of time.

Management abstracts

Automating the last frontier: the sales force. *T Eisenhart in Business Marketing (US), May 89 (2 pages)*

Pinpoints some difficulties in introducing computer systems for sales-forces, such as their cost, the computer illiteracy of the salespeople, and incorrect assumptions as to their function. Citing work of two Harvard professors, notes that salespeople can be reluctant to share information, and – from an example at Sandoz Pharmaceuticals – stresses the need to show reps that computers are not a threat but offer real benefits.

When the popular does not appeal: PC preferences, *D Barrett in Computer Weekly (UK), 18 May 89 (2 pages)*

Reports the results of a survey of PC hardware and software popularity, finding that the most common machines and packages did not provide most user satisfaction, eg DBase is the database package most respondents would buy even though it came second-last in user satisfaction. Attacks the training offered by PC suppliers.

Halving it all: part-time professionals, *S South in CA Magazine (Canada), June and Jul 89 (18 pages)*

A two-part article which recounts the experiences of professional accountants, especially women, working part-time for firms so that they can meet other commitments, especially family ones; shows how flexibility can be built into work practices so as to avoid stress and enhance productivity.

Now service businesses must manage quality, *G DeSouza in The Journal of Business Strategy (US), May/Jun89 (4 pages)*

Defines a strategic view of quality in the service sector as "performance perceived by the customer, measured relative to the competition, and balanced against price to provide value"; offers guidelines for achieving competitive advantage through service quality by designing the service to create lasting customer relationships, being different from the competition, and by measuring and controlling quality performance.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £5 each (including VAT and p+p; cash with order) from Anbar, 62 Toller Lane, Bradford, West Yorkshire BD8 9BY.

Gina Belman and Michal Gough in Dennis Potter's 'Blackeyes,' which starts this week

TELEVISION

Sex, lies and violence: whose choice is it anyway?

Most viewers will probably be surprised to hear that the people at BBC2 now feel the time has come when – late in the evening – they can show, without prior announcement of their intentions, clear images of anal intercourse, fellatio, and masturbation; and not only these acts being undertaken separately, but one striking picture of a trio managing to perform all three simultaneously. There is, of course, one piece of information missing: all the people involved were men. The pictures were produced by artist Philip Core who died last week of AIDS. You know, and I know, and the people who run BBC2 and *The Late Show* all know, perfectly well, that if this had been heterosexual activity the pictures would not have been transmitted.

But television is now bending over backwards so far in its determination to counter what liberal broadcasters see as the "homophobia" of the tabloid press that they have reached the grotesque situation where they are willing to show on screen vivid portrayals of the sort of sex which most viewers regard as distasteful, if not positively perverted (and opinion polls would doubtless show that most people *do* regard such homosexual practices as "perversions") while continuing to turn their backs firmly on images of the sort of sex most viewers regard as normal and pleasant.

Over the years this column has railed against the repetitive violence on television and, in dispiriting contrast, the virtual absence of sex. On each occasion this has resulted in a number of letters declaring "Thank goodness someone else has said it, I thought I was the only one" but others asking "Are you joking? Television is chock-a-block with sex and violence . . ." which illustrates one of the biggest difficulties in even beginning to discuss the subject. By repeating the lie year after year, a moral minority, with twisted minds, has managed to persuade e lot of people that "sex-and-violence" go together like Marks & Spencer, and should both be treated in the same manner: ban'em.

But where is all this sex? In every other area of the arts, in fact every area of human expression, sex has always played a major part. Throughout centuries of painting, sex and religion competed for the number one spot in the ratings (often being inextricably combined: thousands of splendid male nudes labelled "San Sebastiano" decorate the walls of Italian churches). In literature, from Chaucer and Bocaccio to Kingsley Amis and Iris Murdoch, sex has elways been one of the chief topics. Sex – and I am not using the word just as a synonym for "romance" or "affection" but also for quite explicit physical manifestations – is often central to opera, sculpture, and cinema. Yet, despite the outrage of the "sexanviolence" brigade, sex is seldom the subject of an entire television programme, and occurs pretty rarely even as an incidental element.

Popular belief has it thet satellite television contains much more sex than the television we are used to, and in the last few weeks a Dutch channel called RTL-V has been accused on the BBC1 programme *Heart Of The Matter*, and in *The Spectator*, of down-loading soft porn into British homes. All I can say is that, search as I may, I can find only rock videos and studio chat, the staples of so much satellite programming, on the RTL-V service filtering through *my* dish. If the soft porn ever was there it is not now.

Rupert Murdoch's Sky Movie Channel has, very occasionally, shown films such as *9½ Weeks*, *Crimes Of Passion*, and *Emannuelle IV*, all of which are about sex and contain sexually explicit passages. But they are few and far between, and my impression is that they are becoming fewer and further. Either ammunition is being conserved for the opening battle with BSB, or Mr Murdoch is moving ever closer to the tastes of his friend Margaret Thatcher.

On Saturday at 11.00pm MTV, the 24-hour pop video network also delivered by satellite, transmits *MTV Erotica*, "a selection of those video clips that are too near the knuckle to go out during the day." Yet 99 per cent of this looks indistinguishable from the other rock videos churned out day and night. The sole exception I have found so far in hours of dedicated hunting is a number called "If I Could Turn Back Time" by Cher, and interestingly it is not so much the revealing outfit in which the lady struts her stuff which is such a turn-on, but the sheer exuberance of her sexuality: she not only exudes sexiness, she exults in it.

Predictably enough this video was picked up and shown by *The James Whale Radio Show*, a bizarre production which began at Radio Aire, in Leeds, and then had cameras pointed at it by Yorkshire TV. Now, while still being broadcast on radio, it is simultaneously shown late on Friday nights in many parts of the ITV network and all the signs (from the phone-ins, student gossip and the tabloid press) suggest it is becoming a cult.

This goes completely against the grain of current television since the presenter, the eponymous Mr Whale, behaves as so many heterosexual men used to behave quite guiltlessly, in the years before the New Puritanism was ushered in by the feminists. James Whale is what feminists call a male chauvinist pig: he has women with classically proportioned bodies cavorting around him while he is chatting away at the microphone, and he revels in material such as the Cher video.

But this is notable precisely because it is so unusual. You have to be mentally unstable to believe there really is as much sex as violence on television. Admittedly there has been this bout of reverse discrimination during the last few years which has meant that, once in a while, usually late on Channel 4 (most recently in *Signals* which commissioned what must, surely, have been the first ballet to feature "cottaging" as one of its central elements) homosexuals, usually male, have been able to see a small amount of material of an explicitness which would certainly have prevented its appearance had it been heterosexually inclined.

Bearing in mind the Government'a bungled television Aids campaign and the near-homophobic argument that it is promiscuous male homosexuals who really need to be targeted, it may be relevant here to suggest that it is not just male homosexuals who have a promiscuous appetite for sex, but men in general; many men, anyway. The difference is that homosexuals find it fairly easy to satisfy such appetites because their sexual partners are other men with similar appetites, whereas heterosexual men have to negotiate with women, and most women are different: their primary concern in this area is emotional commitment and stability. Hence the long-term stable relationships of many lesbians, which surely give the lie to the idea that it is "homosexuality" in general which is inherently promiscuous. It is not – but perhaps men are.

Have you ever seen a television programme which reflected this fact, or – if you regard this as shaky theory – a programme which explored such theories? It is not unimportant in terms of the human condition and even the future of the human race. Yet while we are allowed to have television discussions ebout god or money or violence, sex in 1989 is still, virtually, taboo. The only place on television during the last 20 years where sex has been regularly considered both seriously and entertainingly (certainly not in those po-faced late night counselling series) is in Dennis Potter's dramas.

Next Wednesday sees the start of his latest, *Blackeyes*, and this time Potter has not only written but directed and provided the voice-over. This column will be returning to the work for proper consideration, but a preview of Episode 1 suggests that Potter is just as ambivalent as ever about heterosexual relationships – but also just as entertaining as ever. Would that he were not quite such a television rarity.

By any sane reckoning sex is far more interesting than City prices, yet it is City prices which broadcasters tell us about on the FT-SE Index, and not sex. Why?

Christopher Dunkley

European Piano Competition in Luxembourg

The last thing the world needs, you might think, is any more musical competitions – above all, any more for pianists. The latest of international importance to surface in Europe is the biennial *Concours Européen de Piano* (November 3-16), which has just run its course for the second time; it does have a distinguishing feature which may be thought to argue the case for its invention.

Admission is reserved for pianists (30 and under) from EEC countries. The early stages of the competition take place in the cities of Karlsruhe and Strasbourg, and the finals in Luxembourg (whence comes the generating initial inspiration and the main backing); the money prizes, substantial ones for candidates in the first four places, are in ECUs, the community currency.

As, in addition, there are concert engagements as part of the booty, television exposure (the two final days were broadcast live in several EEC countries), and decent subordinate prizes for the also-rans, the generosity of the enterprise is not in doubt. The finals were held in the concert hall of the glamorous, remarkably well-equipped new Luxembourg Conservatoire of Music. In company with the Luxembourg RTL Symphony Orchestra under Jacques Mercier, each of the four played a concerto of their choice and, as set-work, the dazzling toccata-finale of Maurice Ohana's 1981 piano concerto.

It's never a good idea to judge the merits of any competition solely on the experience of its finals. I did wonder, however, whether so far the competition had failed to publicise itself sufficiently widely across the entire community – of the 28 candidates, 15 come from France and the others from Germany (5), Belgium (4), Spain (2), Italy (1), and the UK (1) – or to attract the cream of the community's young pianistic talent.

The limitations of three of the four finalists were emphasised, perhaps unnaturally – performance under the glare of cameras is always a strain. Marie-Pascale Talbot (French, playing Beethoven 4, placed fourth) and Nathalie Juchors (French, playing the Emperor, placed third) both showed different sorts of musical sophistication incompletely matched by technique; Kornelia Ogorkowna (Belgian, playing Chopin 1, placed second), possessed of massive force, agility, speed, and stamina, showed all the sensitivity of a threshing-machine.

Yet any competition which ends up with a winner not just indisputable but revealed as an important talent can be said to have justified its existence after all. Jonathan Plowright, the single British entrant (and, at 30, the second-oldest), is a product of the Royal Academy, and a pupil of (among others) Frank Wibaut. His name has been encountered on the London pianistic grapevine, but this was my first opportunity to hear him.

All four pianists dealt authoritatively with the syncopations and post-Prokofiev flourishes of the Ohana; it was in Plowright's account of the Emperor that one immediately heard and saluted a genuine artistic "voice" – individual in stamp, totally confident in utterance, and possessed of real musical breadth.

The opening flourishes were taken lyrically, lingeringly, with fine detail wisely savoured; throughout the concerto, and in spite of the mediocre orchestral support (horrid, ill-tuned woodwind), one felt the player's desire to expand his own and the listener's horizons to match the scale and the structure of the music. The sound had a quality of limpid concentration, a crystalline focus, that compelled attention; the dynamic range was beautifully wide, and thus (in contrast to Ogorkowna's indiscriminate thundering) the climactic peaks gained their full measure of dramatic power.

On this evidence along Plowright not only deserves, but has the maturity to handle, a significant career. The European Piano Competition can take pride in having helped to propel it forward.

Max Loppert

London Sinfonietta

QUEEN ELIZABETH HALL

John Adams is this week'a composer on the South Bank; he is conducting two concerts with the London Sinfonietta, which introduce three of his recent scores. Since *Nixon in China* was first staged in Houston two years ago Adams' popularity has burgeoned on both sides of the Atlantic. His orchestral and choral pieces have infiltrated the most conservative establishments and he has come to represent the "fun" side of minimalism, offering a carefree amalgam of styles in which rock and jazz references, neoclassicism and expressionism are bound together by a remorseless pulse.

On Friday the programme will include the UK premiere of his Whitman setting, *The Wound Dresser* and the first performance of *Eros Piano*, written for Paul Crossley and the Sinfonietta. Monday's contained one Adams work, the half-hour *Fearful Symmetries*, which seemed to epitomise both the passing attractions and severe shortcomings of his music. The title is all that the work borrows from Blake's *Tyger*; it is a machine piece of increasingly manic energy and jolting modulations, attempting to win over its audience by a kind of aesthetic totalitarianism – so much is piled on that the ear cannot but surrender.

The stuff of *Fearful Symmetries* is a handful of rock beats and jazz riffs, the textures those of big bands and a synthesised gloss. What it lacks, apart from any discrimination in its choice of sonorities is any sense of affection for its subject matter. The humour wishfully evoked in the programme note seems mirthless; the tunes are drained of sentiment and vitality, and fed into the machine to be ground down to a meaningless pap. Adams has written more convincing works than this but none that reveals so expertly the vacuity of his style.

Aronnd his own music Adams has placed scores by his Harvard teacher Leon Kirchner, and in the first concert pieces by Pärt and Feldman. Kirchner's thoroughly crafted, Schoenbergian *Music for twelve* sat uncomfortably alongside the brands of minimalism exemplified by Pärt's *Tabula Rasa* (not the rapt experience in the Elizabeth Hall it can be in a more airy acoustic) and Feldman's *The Viola in my Life II* in which Paul Silverthorne wrung every drop of eloquence from the solo part. Yet all three composers served to draw attention to the sensory and spiritual deprivations of *Fearful Symmetries*. Feldman's infallible ear for texture and colour, Pärt's awareness of music's potential for enchantment, and Kirchner's sense of stylistic integrity, all offered Adams salutary lessons.

Andrew Clements

Nativity

TRICYCLE THEATRE

Christmas comes betimes to Kilburn's Tricycle Theatre with this strange little fable from Nigel Williams which unfolds like a cross between *Through the Looking Glass* and a customised nativity play. The baby is not born but found – in a tissue box on the banks of a canal, by a young couple who belong to the great oppressed of Thatcher's Britain.

Sam (Robert Patterson)is a glum young Irishman, Jenny (Siobhan Finneran) a bereft young Northerner. They are beholden to the only person who would take them in – a gibbering slum landlord (Nabil Shaban), who jnts bizarrely from a wheelchair, holds rent scrolls between his toes and goes into an apoplexy of indignation every time anyone mentions the word "kind".

By surrounding his two characters with a stageful of caricatures Williams holds a distorting looking-glass up to the values of the 1980s: if Mr Petersen represents the false logic and grudging humanity of the capitalist, his wife – a beautifully caustic etching from Tina Marian – embodies the phony enshrinement of the nuclear family, as she prances around in a twin-set of red roses on green to match her domestic accoutrements.

Nor are they the only obstacles that the young couple have to negotiate in their attempts to legitimise their parenthood: in a series of more or less successful scenes they come face to boot with officialdom (a giant figure on stilts), eviction (two bruisers in leathers and shades) and their own consciences, personified in the wino who claims to be the mother of the foundling.

Williams' purpose is not simply a repetition of familiar satirical formulae: he is trying to reach past the truisms to a modern manifestation of redemption, which takes on board intellectual as well as material alienation. "No culture, no faith, nothing" mourns a lonely librarian who is approached to decipher a Hebrew missive found with the baby.

The biblical resonances of the play are continually and at times clumsily underscored – curiously so, since the gist of the story is clear enough. The problem with both the play and Chris Bond's production is that it cannot quite keep its head above the tide of its own earnestness.

Claire Armitstead

Alastair Muir

Robert Patterson and Nabil Shaban

Don Carlos in Vienna

The first Verdi opera Claudio Abbado conducted was *Don Carlos* at Covent Garden in 1968 and it will be with *Don Carlos* and *Wozzeck* that he returns in April 1992 with the Vienna State Opera. The production that London will see, using the full 1886 five-act version in Italian, was recently given its initial run in Vienna (the first night was broadcast live on Radio 3).

There could be no better illustration of Abbado's gifts as an inspirational force in large scale musical enterprise. He possesses an instinctive understanding of the heart of *Don Carlos*, maintaining the music's expressiveness through his ability to "centre" each scene between Verdi's dramatic and lyrical extremes. There were countless luminous touches without a hint of ostentation or any sacrifice of the larger design. With the Vienna Philharmonic at its most sensitive, the performance had a classical, darkly-coloured grandeur.

The staging, by Pier Luigi Pizzi, provides a broad pictorial framework for the music: he leaves the principals to their own devices, marshalls the chorus conscientiously and relies on costume-drama and strength of numbers for the *auto-da-fé*. The result is bland, with the occasional distinctive touch of stage composition and romantic colouring. The Fontainebleau act suffers most, with Carlos having to sing "Io la vidi" in front of a vacant drop-curtain. For the rest, the main stage feature is a row of iron grilles, evocative of the strict, oppressive court atmosphere of 16th century-Spain. The setting works best in the first part of Act Four, with Philip's lonely aria and confrontation with the Grand Inquisitor, accompanied by a flickering background hearth.

Such a staging plays to the individual strengths and weaknesses of the cast. Luis Lima is the title role seemed out of his depth. The balance of the casting would have been better if the heroine had been a younger soprano than Mirella Freni, whose matronly Elisabeth was deprived of her former vulnerability and vocal ease. The arrival of Renato Bruson as Posa in Act Two immediately raised the temperature of the stage performance. In a youthful wig and black leather tunic, Bruson cut a noble figure, making this another of his distinctive Verdi baritone portraits. Philip was sung by Ruggero Raimondi – not as vocally imposing as some of his other achievements, but rising to the challenge, including that of the superb bass counterpart, Anatoly Kocherga, in the scene with the Grand Inquisitor. Kocherga, another talented Russian singer snapped up in the West, resembled the godfather in disguise with teeth like fangs and a physique capable of dwarfing even Raimondi. Agnes Baltsa, a great favourite in Vienna, sang Eboli with characteristic élan, and Gabriele Sima was the charming Tebaldo.

Andrew Clark

ARTS GUIDE November 17-23

THEATRE

London

Anything Goes (Prince Edward). Cole Porter's silly ocean-going 1930s musical has four or five marvellous songs and Elaine Paige failing to emulate Ethel Merman. Jerry Zak's desperately bright production comes from the Lincoln Center in New York and is undemanding summer-time fare (734 8951, cc 836 2428).

A Life in the Theatre (Haymarket). Slight but enjoyable David Mamet early play anglicised to reflect the last days of weekly rep and notable for the return to the stage of a silkily accomplished technician, Denholm Elliott (930 9832). Ends Dec 2.

Jeffrey Bernard is Unwell (Apollo). Brilliant performance by Peter O'Toole as an alcoholic journalist who embodies a Falstaffian, nay-saying life force while committing public suicide by vodka. Keith Waterhouse has stitched a fine play, the season's highlight, from Bernard's own writing, Ned Sherrin directs (437 2663).

A Little Night Music (Piccadilly). Fine revival by Ian Judge imported from Chichester, of Sondheim's 1973 schlagobers version of a Bergman film. A beautiful score, composed mostly in waltz time, is touchingly performed by Lila Kedrova, Dorothy Tutin (her best work in years), Peter McEnery and Susan Hampshire (867 1118).

Another Time (Wyndham's). New Ronald Harwood play, directed by Elijah Moshinsky, about a white South African family in Cape Town and Maida Vale. Albert Finney plays father and concert pianist son across 35 years, suggesting that talent is a means of escape and a reason for not going back. Janet Suzman and Sara Kestelman are electrifying in support (867 1116).

M. Butterfly (Shaftesbury). Peter Egan has taken over from Anthony Hopkins as the tortured diplomatic hero in a Peter Shaffer-style "spectacle of ideas" dressed up in John Dexter's superb production as a metaphor of homosexual life. The transvestite tragedy proves less electrifying than in New York; the play is not very good but still worth seeing (379 5399).

Aspects of Love (Prince of Wales). Andrew Lloyd Webber's latest is an intimate chamber operetta derived from David Garnett's 1955 novella. Musically interesting and well directed by Trevor Nunn, a cast of unknowns project the right sense of sybaritic insouciance. A probable, but unspectacular, hit (839 5972).

New York

Heidi Chronicles (Plymouth). Wendy Wasserstein's award-winning drama covering 20 years in the life of a successful American baby boomer goes from support for Eugene McCarthy's presidential aspirations to electoral ambitions in the 1980s, accompanied by the musical and emotional flavour of the period (239 6200).

Sweeney Todd (Circle in the Square). An intimate production of the Sondheim-Wheeler musical in contrast with the elaborate original a decade ago emphasises the descent into madness of Bob Gunton as the demon barber of Fleet Street (239 6200).

Lend Me a Tenor (Royale). A sprucing up in the set of a decaying town's big time opera ambitions makes a transatlantic hit of this farce, first produced in London, but now with a local cast led by Philip Bosco and Victor Garber (239 6200).

Jerome Robbins' Broadway (Imperial). Anyone attracted by the notion of a three hours of film trailer previews will adore this compendium of Robbins' directed and choreographed plays of the past 40 years, including *On the Town*, *West Side Story* and *Gypsy*. The lustre of the credits is dimmed by the brevity of each piece, with a contemporary crew of Broadway aspirants who lack the multi-talents that inspired the heyday of the musical.

Rumours (Broadhurst). Neil Simon's latest comedy is a self-conscious farce, with numerous slamming doors and lots of mugging but hollow humour that misses as often as it hits. Christine Baranski leads an ebullient cast in the inevitable but disappointing hit.

Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).

A Chorus Line (Shubert). The longest-running musical in the US has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions (239 6200).

Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).

Me and My Girl (Marquis). Even if the plot turns on tragic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. It has nevertheless proved to be a durable Broadway hit (947 0033).

M. Butterfly (Eugene O'Neill). The surprise Tony winner for 1988 is a somewhat pretentious and obvious meditation on the true story of the French diplomat whose long-time mistress was a male Chinese spy (246 0220).

Phantom of the Opera (Majestic). Stuffed with Maria Björnson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Chicago

Driving Miss Daisy (Briar Street). The touching relationship between a dowager, played in this production by Dorothy London, and her black chauffeur exposes the changes in the South over the past several decades (348 4000).

Steel Magnolias (Royal George). Ann Francis and Marcia Rodd play the leads in this view of southern life from under the dryers in a busy hairdressing establishment (988 9000).

A Christmas Carol (Goodman). For the 12th year, the Goodman company does its holiday thing, with William J. Norris as Scrooge for the 11th year, but a new director, Steve Scott, and new adaptation by Tom Creamer promise to refresh the familiar. Ends Dec 30 (443 3800).

Tokyo

Kabuki. At Kabuki-za (541 3131): an opportunity to see two of the best-loved classics of the traditional theatre. The 11am programme includes *Sonezaki Shinju* (*Double Suicide at Sonezaki*), based on the moving puppet drama by the "Japanese Shakespeare", Chikamatsu. The highlight of the 4.30pm programme is Sukeroku, whose swaggering hero performs a famous dance with an umbrella. At the National Theatre (265 7411): *Reigen Kamiyama Soko* (*Ghost Turtle Mountain*) is a dramatic and spectacular tale of murder and revenge.

The Rose of Versailles. A must for connoisseurs of kitsch. The all-girl Takarazuka Revue celebrates its 75th birthday by reviving its famous romantic musical set in 18th century France. A plot summary in English is printed in the theatre programme. Takarazuka Theatre (201 7777).

Kokumaseya Gessen. New play by Hideki Noda, with a title drawn from a famous puppet play by Chikamatsu. Noda's work has tremendous visual flair and can be enjoyed by those with no or little knowledge of Japanese. Ginza Saison Theatre (5478 0771).

Desire Under the Elms. Eugene O'Neill's powerful drama about human values and property values should strike a chord in the city with the world's most expensive real estate. Hakuhinkan Theatre (944 5451).

SALEROOM

Christie's was selling orders, decorations and campaign medals yesterday that reeked of national heritage. They ranged from the Garter Jewels of the Beaufort family; to the medals awarded to *Chariots of Fire* hero, athlete Harold Abrahams; to the VC won by an ancestor of Lord Gowrie, European chairman of Sotheby's.

The Somerset Trust, which looks after the Beaufort affairs, was selling the jewels to pay off capital taxes on the estate of the 9th Duke of Beaufort. It raised £235,203, about what was expected. The top price was the £46,200 paid for a Garter of around 1650, which was possibly owned by Prince Rupert of the Rhine. It consisted of a Lesser George, the name given to the Garter Jewel introduced in the 15th century, over 100 years after King Edward III initiated the Most Noble Order of the Garter in 1344 to enthuse his nobles with Arthurian valour to fight the 100 Years War.

This particular Garter Jewel was much changed in the 18th century. It was on show at the Treasure Houses of Britain Exhibition in Washington in 1985 which has subsequently led to a rush of precious heritage items being sold abroad. The dealer Armoury, St James', paid £41,800 for a Lesser George of the late 18th century, probably made for the 5th Duke of Beaufort, and £23,100 for another Lesser George, which, once again, might have belonged to Prince Rupert.

The medals of Harold Abrahams are rather like Hamlet without the Prince since his Olympic Gold medal was stolen over ten years ago. But Mohammed El-Fayed, one of the brothers who owns Harrods, paid £25,300 for his CBE and many athletics prizes, over twice the estimate. He can afford the purchase: he invested $4m in *Chariots of Fire*.

Lord Gowrie's grandfather won the VC in 1898 in the Sudan. With other decorations it went for £60,500.

Antony Thorncroft

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A television election

THE LONG LIST of legislative proposals outlined in yesterday's Queen's Speech could be taken as an indication that for the time being at least the British Government is back on the rails. Three middle-class domains – medicine, the law, and broadcasting – will be tackled head-on. The economic liberalisation of the latter two is to be welcomed, although there may be doubts about details of the Broadcasting and Courts and Legal Services Bills when they emerge. The environment will be the principal subject of more than one new tidying-up and pollution-control measure, all of which are welcome, although they merely precede the 10-year strategy for the environment that the Minister, Mr Christopher Patten, has promised to produce.

In all there are to be at least 15 major bills, of which not a few will be contentious while at least two – the proposed restructuring of the National Health Service and the creation of student loans – may be especially unpopular. The overall effect, it may be argued, is an affirmation that the Government is keeping its nerve, in spite of the Labour lead in the opinion polls.

Reforming spirit

On closer inspection, however, it is apparent that there is no fresh impetus to the radical reforming spirit of the 1980s. The Speech contains no great surprises. Instead, there is a list of familiar matters that, in the Government's view, remain to be dealt with by parliament in advance of the next general election. This is the least that might have been expected. Since the measures proposed yesterday have been signalled in advance, the Government was faced with the choice of moving ahead on its predetermined lines or subjecting itself to the accusation that it was in abject retreat. Plainly, it is not.

It does, nevertheless, face a very difficult political year. One reason is that the economic outlook is bleak. Another is that the political effect of unpopular measures enacted in previous parliaments will begin to be felt. Water privatisation is one such: the share offer may be welcomed by investors, but the opinion polls indicate that it is not an electoral asset. The poll tax now looks likely to lose votes for the Conservatives, in spite of the Treasury's agreement to subsidise its introduction. Above all, high mortgage rates demonstrably turn away votes.

On the attack

As a result the Opposition is on the attack. This was evident in the House of Commons yesterday. The parliamentary debate that traditionally follows the Queen's Speech was the first to be televised: it showed both the arcane practices of the British House, with which few viewers are familiar, and of the skills necessary for a head-to-head presidential election debate, whose US versions have been seen in most parts of the globe. Mr Neil Kinnock, the Labour leader, was in excellent TV form, hardly striking a wrong note. He put his message to the cameras with skill. The Prime Minister was not at her best in an immediate combative response, but she showed her most outstanding qualities, and a smiling courtesy, when delivering her prepared address. Mr Kinnock concentrated on the Government's handling of the economy and its isolation inside the Commonwealth and the European Community; Mrs Thatcher restated her known positions on both the forthcoming legislation and Britain's role in the EC.

The effect of these TV performances on the electoral fortunes of the two contending parties remains to be seen. It is unlikely that many viewers were able, or willing, to watch both Mr Kinnock and Mrs Thatcher completa their speeches; much may depend upon the bits selected for later retransmission. Yet only the tiny minority of the electorate that has visited the Commons will have seen anything like yesterday's exchanges. The ability of the Government to keep to its present course may be tested by the arrival of TV in the Commons, its conduct of the next election will almost certainly be tailored by the presence of the cameras. More than ever, the fate of the Government is to be decided in what is already a television election campaign.

Africa in distress

IF THE 1990s are to be better for Africa than the dismal 1980s there has to be substantial external assistance, says a World Bank report published today. But there must also be further reform in African policies and, equally important, African politics.

Compassion fatigue is setting in. The superpower disengagement from Africa could be a mixed blessing, reducing conflict on the one hand, but pushing the region down the agenda of strategic concerns, which too often determine aid levels. Eastern Europe's needs, which strike a particularly sympathetic chord in the West, are virtually certain to take precedence over Africa's.

There is a strong case that aid flows to Africa have been inadequate, and that not enough has been done to ease the continent's debt burden. But the question also arises whether Africa's leaders have made effective use of the help that has been available. The record suggests that many of them, presiding over authoritarian political systems as they do, are incapable of implementing economic reforms honestly. After all, such reforms would end much of the patronage and corruption which keeps them in power.

Democratic reforms

The Bank report suggests that, without political change, economic reforms will be less effective and additional aid more difficult to raise. The implication is that future assistance to Africa should in some way be linked to democratic as well as economic reforms – a condition the European Community is already setting for eastern Europe.

The report, one of the most thoughtful and challenging studies of sub-Saharan Africa produced by the Bank or any other institution, makes clear the scale of the African crisis, and the size of the region's needs. The assessment of Africa's progress and prospects is bleak indeed.

Overall, Africans are almost as poor today as they were 30 years ago. What the Bank itself describes as an ambitious target of 4 per cent annual economic growth in the 1990s – barely ahead of population growth – will provide only a modest improvement in living standards.

Africa's share of world trade has fallen from 3 per cent to less than 1.5 per cent since 1960. Rapid population growth – higher than anywhere in the world – is straining social services and boosting unemployment. The cost of investment in south Asia, the obvious competitor for concessional aid, is lower and the returns much higher, which illustrates the uncompetitiveness of Africa.

Donors criticised

Blame for this dire state of affairs is fairly allocated in a report which criticises donors (including the World Bank itself) and recipients alike. For example, a 1987 study disclosed that half the Bank's rural development projects had failed. The "venality" of foreign contractors has contributed to corruption. The Bank, by far the most important single donor, is no longer as inflexible as it once was and encourages consultations with other donors and African governments.

The validity of the Bank's structural adjustment programme, disputed by some donors and recipients, is defended in the Bank report. Although maintaining the controversial assertion made earlier this year – that the economies of countries implementing structural adjustment policies are starting to recover – the Bank is responding to its critics. More attention is paid, for example, to the impact of economic reform on the poor and the vulnerable.

But what stands out in the analysis of Africa's woes is the "crisis of governance" marked by the absence of a free press, a representative legislature, or an independent judiciary and "the appropriation of the machinery of government by the élite to serve their own interests." For donors to link aid to remedying these shortcomings might be condemned as infringing sovereignty and would certainly raise questions of practicality. But the issue should not be evaded. As the Bank itself warns, the willingness of the donor community to tolerate corrupt systems and practices only aggravates the malaise.

India has reached a watershed at today's election, argues David Housego

Poised for a new beginning

AS campaigning has wound down in India's general election campaign, there has been an almost tangible sense of expectation that this week's vote is the prelude to fundamental changes in the country.

The Congress party and the Nehru family have only been defeated once in India's post-independence history. That was in 1977 and reflected a spontaneous and angry reaction to the two year Emergency rule of Mrs Indira Gandhi. On this occasion, the now widely expected defeat of Prime Minister Rajiv Gandhi could be accompanied by the break-up of the Congress party and a major realignment of political forces.

Inevitably such an outcome heralds a period of considerable uncertainty after the election. But there is also the prospect that the change could bring to power a more broadly based administration drawn from a stronger ministerial team, and one more acceptable to increasingly vocal regional sentiment in the country than the single handed rule that Prime Minister Rajiv Gandhi's government has come to resemble.

When Mr Gandhi sprang his surprise on October 17 of announcing an early general election, most political observers believed it would be a close run contest. For a campaign that seems to have been so influential in shifting public opinion – or in articulating feelings that remained unspoken – it has been a scrappy affair.

Mr Rajiv Gandhi has run an almost solo campaign for the Congress party, dashing across the country by plane and helicopter, but failing to focus the limelight on himself as the only credible national leader. Mr Vishwanath Pratap Singh, the leader of the Opposition and the most likely next Prime Minister, has stuck to the highways and byways of the Northern Hindi speaking states of Uttar Pradesh and Bihar – thus leaving a massive burden of electioneering to his colleagues as though to prove the seriousness of his intentions to introduce a more collegiate form of government.

Though the campaign has thus been more low-key than had been expected, certain clear trends have emerged. The most marked has been the rejection of Mr Gandhi himself. Five years ago as a symbol of youth and reform he carried the Congress party to its greatest victory in the wake of Mrs Gandhi's murder. This time he has born the brunt of disappointed expectations over a host of issues from rising prices to corruption, the spread of violence and the erosion of the country's institutions.

The impact of this trend has been unevenly spread. In the south and in the western state of Maharashtra, the Congress party looks as though it could hold up well. But the silent, and often sullen crowds that have met Mr Gandhi in the northern Hindi speaking belt reflect all the problems that he has in engaging with village India. Even much of the country's middle class – which has benefited most from his administration – seems now eager to see him go.

A second trend confirmed by the campaign is the long term crumbling of the Congress party. This began under Mrs Gandhi when she cut the roots from under local party organisations by shifting the appointment of officials and candidates from them to the party Presidency. The party's troubles were concealed by the wave of popularity that swept Mr Gandhi to power in 1984. But with the Prime Minister's star in the decline they have resurfaced in this campaign in the squabbles between the national and regional leaderships; in Mr Gandhi's failure to replace sitting MPs with new faces because of his fears of internal revolt; and in the difficulties the party organisation has had in getting its show on the road.

Mr Rajiv Gandhi (left) and Mr V.P. Singh

The third trend to emerge has been that the Opposition parties which together have regularly polled more than the Congress have found a way to defeat it. In 1977 the Opposition parties joined hands in spontaneous protest against Mrs Gandhi's Emergency rule. This time their tactical alliance has been longer in hatching.

The real achievement of Mr V.P. Singh has been in mapping out a strategy over two years ago – involving a merger of the centrist groups, an alliance with the regional parties and then seat sharing arrangements with the Marxists on the left and the militant Hindu BJP party on the right – and then holding this disparate band of partners together. The acid test of their unity – and the real turning point in the campaign – was their unexpected agreement to put up only one candidate against the Congress in almost 400 of the 527 constituencies being contested. One opinion research group believes that they will thus win a "bonus" of some 60 seats.

A final trend to emerge is the breakthrough being made by the BJP which has benefited from the strong growth in Hindu fundamentalism in recent years. Against the background of increasing violence between Hindus and Muslims this is potentially the most worrying trend for the future. From only two seats in the last Parliament, the BJP could now win over 60. In the short term their goal is to be a powerful lobby within or outside the administration. But over the longer term Hindu fundamentalists undoubtedly hope to form the government themselves.

The shape of the new political landscape will only become clear once the full results of the election – staggered over three days – are available on Sunday or Monday. But some of the contours are already emerging.

Unless the opinion poll forecasts and the internal forecasts of both the Opposition and the Intelligence Bureau are drastically wrong, the Congress will be in no position to form a government on its own. The upper reaches of forecasters' expectations give it about 240 seats of the 527 being contested which would leave it

Whichever way the dice fall, India is bracing up to the prospect of a coalition government

the largest single party but sharply reduced in size from the 415 seats it won in the last Parliament. It will be well nigh impossible for Congress to achieve a majority.

The further Mr Gandhi slips below the 200 mark, the more his own position as leader of the Congress is likely to come under challenge – and the greater the risk that the party will split. Already there are signs of disgruntlement in Maharashtra, the state in which Congress is likely to win the most seats, but where the Chief Minister, Mr Sharad Pawar, feels that Mr Gandhi tried to undermine him in the choice of candidates.

The most likely outcome is thus that the National Front led by Mr V.P. Singh will be asked to form a government. With possibly 200 seats in the new House, it will be in no position to do this on its own. Three courses then seem open to it. The first would be to form a minority administration that looked to support from outside the administration from the BJP and the Marxists, both of whom could have over 60 seats. This would be a recipe for instability.

The second would be to draw the BJP into the government – though Mr V.P. Singh has consistently denied he would do so. As Mr L.K. Advani, the leader of the BJP, has made clear, the party wants to enter the government and expects to be asked. The attractions of such a move for Mr Singh is that it could help absorb and neutralise the Hindu fundamentalists. For though the BJP has grown on the back of Hindu revivalism, some of its leaders, its supporters in backward states like Madhya Pradesh and even those casting their vote for it in Delhi as a way of rejecting the Congress, are not fundamentalists.

The third course – more a medium term prospect than something that would occur in the immediate aftermath of the election – is of the Congress splitting and of a realignment that would bring together the National Front and chunks of the existing Congress party. This is clearly the favourite scenario of Mr V.P. Singh and his principal lieutenants, most of whom were ministers under Mrs Gandhi or her son.

The attractions of such a move are that it would reunite many former members of the Congress who quit the party because of their quarrels with the Nehru family. It would lead to the formation of s more broadly based centrist movement with stronger roots in the regions than the existing Congress and with claims to be a long term governing party.

Such a realignment under whatever label it emerged would in some ways be a return to the Congress of Jawaharlal Nehru, with a more collective style of leadership and a shift in power from the central government to the states. It would mean that minority parties like the Marxists and the BJP returned to their role of Opposition on the left and right.

But whatever its attractions such a realignment would be a lot more difficult to achieve than might appear on the surface. Though the leadership of the Janata Dal, the main constituent of the Front, and the party led by Mr Singh, has much in common with many Congress members, they are also divided by personal animosities and rivalries. There would have to be difficult discussions over posts, hierarchy and patronage before any realignment could take place.

Political manoeuvring in the aftermath of the elections will focus on exploring these possibilities. But whichever way the dice fall, India is bracing up to the prospect of a coalition government. The only coalition the country has experienced to date was the Janata coalition of 1977 which broke apart within two years. But there is no inherent reason why coalition government should fail this time.

A National Front led coalition would come to power having survived the rigours of a difficult period of Opposition. In Mr V.P. Singh himself, a former Finance Minister, Mr Arun Nehru, a cousin of Mr Gandhi and a former Minister of Internal Security, Mr Ramakrishna Hegde, the former Chief Minister of Karnataka and others it has leaders of experience. It would also reflect a sensible shift in the balance of power from the central government to the regions.

Mr Gandhi's five years of increasingly single-handed rule have shown the advantages of a more broadly based administration and more decentralisation. The new administration also would take power at a time when the Indian economy seems to be moving towards higher long term growth.

None the less the difficulties are bound to be immense. The Front contains an unwieldy array of differing ideologies and lobbies including liberals, socialists, marxists, farmers, trade unionists and plain populists. Amongst its members are powerful, prickly local leaders like Mr Devi Lal, the Chief Minister of Haryana and Mr N.T. Rama Rao, Chief Minister of Andrha Pradesh whose main concerns will be to satisfy their own constituents.

There are strong contradictions within the alliance's programme. Mr V.P. Singh is well aware of the need to curb budgetary and balance of paymants deficits at a time when recourse to fresh IMF borrowings could be unavoidable. The Front's programme promises remission of debts to farmers.

There are bound to be conflicts as well over the the clamour for competing resources between India'a new aggressive middle class, which wants liberalisation and market oriented policies to continue, and the more backward rural regions of the country which feel starved of funds.

In deciding on his own future, an important considaration for Mr Gandhi will be his assessment on whether the coalition can hang together and for how long. Mrs Gandhi made her comeback by driving wedges between the Janata partners after 1977 and then campaigning through the villages.

If he is defeated Mr Gandhi will leave power without the base in the Congress party his mother had and without the immense respect she had won as a politician. He will also be handicapped in establishing mass contact by the heavy security protection that now accompanies him and sadly is likely to continue to do so. Many people think he could step down.

OBSERVER

Wales has a rival

■ The mimeographed invitation notice from the Japan-British Society in Tokyo was typically British in its understatement: "This year we are especially honoured to be able to welcome as our guest H f H, the Crown Prince, who has graciously accepted our invitation and agreed to talk on his studies in relation to the River Thames."

Last night, Prince Hiro, the 29-year-old heir apparent to the Chrysanthemum throne, duly appeared and delivered to the society'a annual dinner a 25 minute speech on his studies at Oxford three years ago. Those who came – and there was about twice the normal 250 turnout for such an event, including many pretty young ladies in low cut frocks hoping to catch the eye of Japan's most eligible bachelor – were not disappointed.

The Prince recalled that his interest in the history of transportation (a suitably non-political topic, as a former tutor later remarked) began when as a child he first discovered the existence of roads. Having lived a protected life in a Tokyo palace, he had been restricted in his movements, and "a road was a link between me and the unknown world".

At Gakushuin, the Japanese equivalent of Eton, he studied transportation systems in the middle ages, and when the opportunity arose to go to Merton College, Oxford as a graduate student, he planned to investigate the same period. But he quickly discovered that his ignorance of Latin blocked that path and so, with the help of Professor Peter Mathias of All Souls, his supervisor, and Professor Roger Highfield, a fellow of Merton, he settled on the study of water transport on the Thames in the latter half of the 18th century.

The Prince talked nostalgically of walks along the Thames with Highfield and his discovery that records of

malt transport for brewing and distilling were the most thorough because of the Treasury's interest in excise duty. The research was sometimes arduous because he suffered from hay fever, "but f was very glad to be able to inhale the atmosphere of the period, sometimes with live dust".

He recalled his joy in the architecture of Oxford and teased his cousin, Prince Tomohito of Mikasa, a graduate of Magdalen and honorary patron of the Japan-British Society, about the design of its chapel being based on that of Merton. "If I keep on remembering, I shall want to return to Oxford," he concluded.

In fact, the word from on high is that he will return shortly to complete his doctorate.

Wrong man

■ The awards won hy Harold Abrahams, the only Englishman to have achieved Olympic gold in the 100 metres and whose exploits were commemorated in the film Chariots of Fire, will shortly be on display in the sports department of Harrods after they were bought yesterday at Christie's by Mohamed Fayed for more than £25,000.

However, although the marketing benefits of the purchase are readily apparent, the reason given by Fayed that he was inspired hy a man who put principles before winning may be questioned. Actually, it was the Preshyterian Scot, Eric Liddell, rather than Abrahams, who refused to run one of his Olympic heats on a Sunday and therefore had to withdraw from the event.

Fayed should know better. After all, he himself invested $4m in the film. His son was executive producer of Chaariots of Fire as well.

Widmerpools

■ Anyone who has read Anthony Powell's sequence of novels, A Dance to the Music of Time, has his own Widmerpool. Kenneth Widmerpool is the character who is not much good at school, no use at games, about whom there is always something slightly out of place, yet who goes on to surprise his contemporaries by his success in later life. (There may even be female Widmerpools.)

Ian Gow, the Tory MP for Eastbourne who made the first televised speech in the House of Commons yesterday, is Widmerpool down to the essence. As has been said of him, be even looks like Widmerpool. None of his fellow Wykehamists thought much would come of him, though he subsequently became rather a whizz at ping-pong and distinguished himself during national service in Malaya.

Gow was Margaret Thatcher's Parliamentary Private Secretary during the whole of her first administration and was tremendously faithful to her, as well as effective. He was known as Supergrass, but not without affection. After the 1983 general election, he was rewarded by being made Minister of Housing, and was briefly at the Treasury. He resigned in protest at the Anglo-Irish Agreement in 1985, having always taken a staunchly Unionist view.

Whereas the real Widmerpool tended to the left, Gow has always been more than a shade to the right, though he is opposed to capital punishment. Yesterday he made the accomplished speech that one would expect of someone who has usually been in the right circles, even if not quite in the centre.

He should not despair at being chosen as the lead backbench speaker on the Queen's Speech. When Mrs Thatcher first became PM, the equivalent speech was given to Kenneth Baker, who seemed out in the cold, and look what happened to him. Perhaps Gow, too, will make a come-back.

Here to stay

■ f thought that the first televising of the Commons was a great success. The rules will have to be relaxed a bit to allow the cameras to range more freely, but everyone seemed to rise to the occasion – even Ian Gow, who continues to be opposed to it. I do not believe that the cameras will lower the public esteem for Parliament. On the contrary, it will increase the interest. Moreover, we have simply caught up with other democracies. One wonders how many people will be against it in six months' time; it will have become a natural. even indispensable part of politics.

Right man

■ The name of the opening speaker in a forthcoming conference on New Developments in the use of Structural Hollow Sections is Mr E Hole.

Draughts for the investor

Clare Pearson on water flotation prospects ahead of the final terms

The water flotation is causing headaches among professional investors. "Problem-raising", "complicated", even "bizarre", are adjectives that spring to the lips of fund managers describing how they feel about the prospect.

It is not that they do not believe the issue will be a success – assuming the final terms to be announced this afternoon are in line with recent indications. "I've been pleased to see the average yield move up to 8.5 per cent. It looks as if the pricing will be perfectly reasonable," said one yesterday. It is more that the industry as an investment has a number of bothersome aspects, even given the compensation built into the price:

● Unlike previous privatisations, there are 10 distinct companies in the water industry. Investors will be required, on information which has only limited relevance, to get to know and work out the relative merits of all of them.

● Many of the conventional tools for valuing shares just do not apply to the case of the water industry. For instance, given the lack of alternative uses for much of the industry's assets, comparing the asset value with the share price is hardly meaningful. And no one can recall another stock market entrant that was poised to embark on a 10-year capital expenditure programme, worth in aggregate at least £24.6bn.

● The overriding concern for investors' will probably be the big role that political and regulatory factors, and the interplay between the two, will play in the companies' fortunes.

This is not solely related to the possibility that a future Labour administration might renationalise. Principally, concern is focused on what interpretation Mr Ian Byatt, the Director General of Water Services, appointed in September to oversee the industry, puts on his brief. That is to ensure the companies achieve a reasonable return on capital, while protecting the consumer.

As one fund manager says: "I bet within twelve months there'll be a pensioner on television complaining about the cost of water. That's bound to have more impact than a shareholder complaining about dividends."

However, political pressures are generally seen as more a problem for the long-term than the short-term: that is, before the K factors (which lay down how much above the rate of inflation companies will be allowed to charge their customers) come up for review to 1994, and while the companies are taking on large amounts of debt to fund the capital expenditure programmes. "As the companies start moving into a cash positive position in the late 1990s, I would be more worried," says one fund manager.

As sub-underwriters, the institutions will be receiving shares in the form of packages. The number of shares in the packages will be in the same proportion as those issued in each company. In practice, however, since demand from the public is likely to be greater for some companies than for others, they are unlikely to end up with a perfect weighting in each of the companies.

For instance, Thames, as the largest company and the one covering the London area, may prove attractive to large numbers of both professional and private investors. It could therefore reach expensive price levels in early dealings.

There are facilities available to trade the shares in package form until July 1991, the date of the final instalment payment, although institutions are likely to want to add to holdings in some companies, and get rid of holdings in others, much sooner than that. This means that they will have to evaluate which of the companies they prefer: by no means an easy decision.

This week investors said they were still uncertain about how to maketheir choices "Even after ploughing through about 60 pages of fine print in the pathfinder prospectus on each of the companies, I still haven't had s chance to form much of a view," says one.

There is a consensus view that the key to successful investment in the industry is via scrutiny of the companies' capital investment programmes. This is because those companies that, through efficient operations, spend less than planned on these programmes will be allowed to retain the cash saved, feeding straight through to the profit line. Companies that stand out as having big capital expenditure programmes include North West and Severn Trent.

The benefits of capital expenditure depend upon the companies' management abilities. Usually, it would be possible to look at the historical record of a newly floated company for guidance. But it is not as simple as that in the case of water.

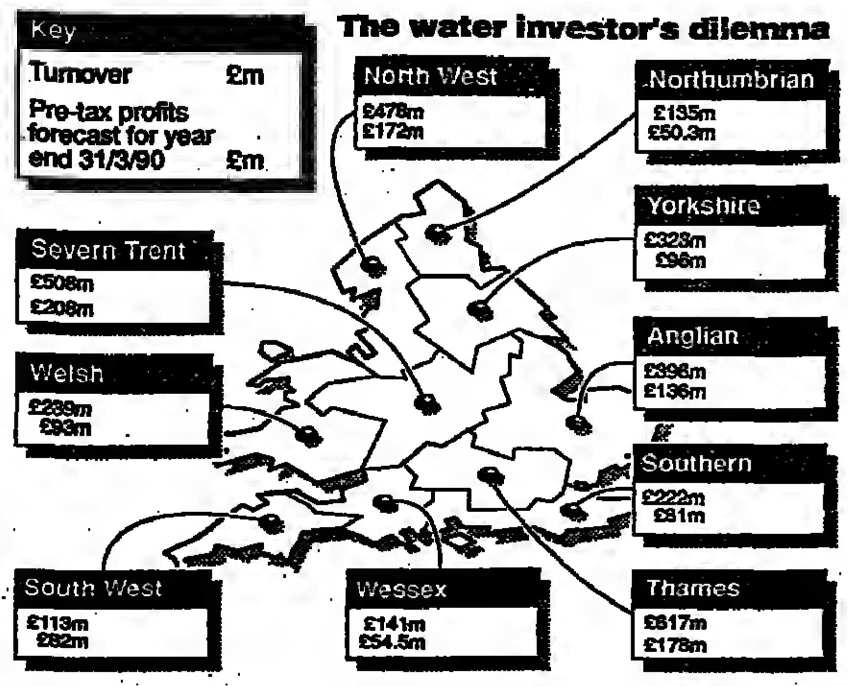
There is a scarcity of analysts in the City able to offer an independent view, due to ths large numbers of houses involved in the flotations. Managements themselves have been officially gagged from talking about their own companies, rather than the industry as a whole, in recent weeks. And most of all, the historical information available relates to a bygone regime when how the companies performed was virtually at the will of the Government. Some have handled bigger investment programmes than others in the past, but not on the scale now envisaged.

Meanwhile, investors wait to be convinced about the wisdom of diversification programmes as an additional route to better-than-everage profits growth. Thames, for instance, plans a rapid programme of diversification, while Northumbrian is considering a joint venture in cable television. Investors need to be convinced that such activities will be well-focused, and will not take managements' eyes off the core business.

The private investor, at least if taking a short-term view, need be presented with no more taxing a decision than that of deciding whether to take advantage of the perks available if he buys shares in his local company.

For the professional investor, however, the process of assessing the companies has only just begun. So managements would do well to pay particular attention to the quality and quantity of information they provide after dealings begin.

The water investor's dilemma



MOST OBSERVERS believe the cost to the water industry of the flotation will surpass the £20m which British Steel spent on its flotation a year ago. That figure does not include the Government's own, far greater, costs. Nor does it include the £13m the 10 water companies spent in 1988-89 preparing for the transfer of certain duties to the new National Rivers Authority, nor the £22m spent on their much-criticised summer advertising campaign. That figure is likely to be matched by the cost of advertising bought by the Government since then.

The complexity of the water flotation makes it so expensive. More than 60 different professional companies have been involved, including at least 15 UK and overseas banks, seven firms of lawyers and nine brokers, as well as a troop of public relations agencies, chartered surveyors and engineers.

The Government alone has 22 advisers – on everything from valuing property to printing the 600-page water prospectus – all of which have devoted large resources to the exercise. J Henry Schroder Wagg, the Government's merchant bank adviser, has put up to a third of its corporate finance staff on the water issue.

But as the Government has become a more sophisticated manager of privatisation issues, it has squeezed costs. For instance, the Government now makes underwriters submit competing bids for the commission they will be paid. That has helped cut the rate for what is usually the most costly element of a privatisation from as much as 0.5 per cent of the total proceeds (British Aerospace, 1981) to as little as 0.02 per cent for the ill-fated BP sale two years ago. Even if the primary underwriters have extracted commission of more than 0.1 per cent on water, rather more than British Steel's 0.071 per cent, the total underwriting and placing fees are unlikely to surpass £60m. That might just keep the overall costs within the usual range – just over 3 per cent of the gross proceeds. The total cost of selling British Telecom in 1984 was £152m; £175m was spent on British Gas two years later. If water's total costs come to the same £175m figure, as seems possible, and the total proceeds of the privatisation are set at about £5.3bn this afternoon, the costs will be about 3.3 per cent of the amount raised.

Andrew Hill

Minimum wages

A cautionary tale of north and south

By Richard Layard

In the 1950s, trade unions in the northern US campaigned for equal wages for southern workers. Had they succeeded, the industrial bloseoming of tbs south would have been nipped in the bud.

Today, most northern European countriss support "upward harmonisation" of wages in the rest of Europe. If this happens, the industrial blossoming of the European south will likewise be blighted.

Yet this is the implication of the European Community's Social Charter. In this context, Britain is part of the south.

The situation is made worse by the threat of an EC directive on minimum wages. Worse still, the British Labour Party has now been converted to e statutory minimum wage (of one-half male median earnings, rising to two-thirds).

A change of this kind could havs e devastating effect on the employment of less-skilled people. Countless studies show the effect of wages on employment. The most compelling collection is that done for the US Minimum Wage Study Commission. Of course, not every study there found the same effect, but most evidence pointed in the same direction. The conclusions of the various stndiee were found to be unconnected with the political opinions of the authors.

It is absurd to assert that competitiveness matters (as all do) and then to pretend that only the productivity element in competitiveness matters, and not the element of labour costs. But even more serious than the average wage is the structure of wages. Technical change is moving rapidly against the less skilled workers. So long as we have unskilled workers, the only way they will remain in work is if their relative wages adjust. It is horrible to see the fall in unskilled relative wages both in the US and in Britain, but without it unemployment could not have fallen as it has in both these countries. Indeed, there may well be a connection between continued high unemployment in continental Europe and the rigidity of relative wages in those countries.

Advocates of a statutory minimum wage for Britain point to the existence of universal minimum wages in Belgium, Holland, France and Spain. But have they looked et unemployment in those countries, especially of women and young people? In Belgium, Holland and France, the minimum wage is, in fact, at Labour's target level (two-thirds). By contrast, the US and Japanese minimum wages are about one-third of the average wage, and thus affect the job opportunities of many fewer people.

There is only one major episode in British history that appears to deny that wages affect employment. This is the Equal Pay Act. In 1974-6, the relative wages of women rose by 15 per cent, and the relative employment of women in each industry was apparently unaffected. However, another measure was introduced at tbe same time. This was the Sex Discrimination Act, which outlawed discrimination by gender in employment. The Act tended to raise the relative job opportunities for women, offsetting the negative effect of equal pay.

There are of course countries where pay is much more equal than in Britain and yet unemployment is lower. Sweden is the clearest example. But there massive resources have been devoted to raising the skill levels of the less able, and further major efforts are made to help the unemployed. In consequence, unemployment is only 1½ per cent. When we have devoted the same resources to reducing unemployment and have got unemployment down to Swedish levels, we might begin to think sbont wage equalisation. But it would be quite unfair to the unemployed if we did so before then.

Of course, there are tbose who say thet unemployment does not matter. If people cannot be employed at a reasonable wage, they say, it is better that they be unemployed, living on benefit. This argument is misleading on at least four grounds.

First, it involves economic waste. Second, it overlooks the effect on a person's self-respect of a prolonged job search while being dependent on benefits. It is bad for people to be in a markst where jobs are rationed. In a healthy society, the worker does the employer as big a favour by working for him as the employer does by providing a job. Third, it assumes that the same people remain on low wages indefinitely, while in fact there is substantial mobility.

Fourth, and most serious, it greatly exaggerates the relation between poverty and low pay. This is because a person's poverty depends on the earnings of all family members relstive to the family's size. Thus, it does not necessarily follow that the families of the low paid are poor. Neither is the reverse true.

Suppose, for example, that we define as working poor those workers wbose families are in the bottom 10 per cent of income per femily member. And we define as low-paid those workers in the bottom 10 per cent of hourly earnings. What is the overlap between these two groops? Very little. Only one in five of the working poor are low-paid, and vice versa.

It follows that reducing low pay will have quite emall effects on the overall distribution of income. Some poor people will gain, but some will lose through increased unemployment.

Poverty has to be attacked by fiscal measures and not by a minimum wage, which will leave it largely untonched. There has to be a much more generous Family Credit. Furthermore, the take-up of Family Credit has to be made universal through an sutomstic system of taxes and benefits paid through the wage packet.

Those wbo advocate e minimum wage point out that many employers favour it. Of course they do. Bnt whicb employers? Those who favour it are operating with a skilled workforce and would gain by eliminating "unfair competition" from those wbo give jobs to the unskilled. This is the same problem as the US northerners who were happy to eliminate "unfair competition" from the south.

Any warm-bearted person is bound to favour minimum wages until he thinks of all their effects. There is yet time to think these through.

The author is Professor of Economics in the London School of Economics

LETTERS

London loses out

From Mr Tony Travers.

Sir, The director of the Merseyside Chamber of Commerce is concerned because the effects of the Uniform Business Rate (UBR) and the rating revaluation, which will result in lower rate bills for many businesses in the north of England, will not flow immedietely (Letters, November 14).

The reason for this gradual move to lower rate bills in the north is because of the Government's view that losers – predominantly in the south – should be protected. Far and eway ths biggest losses will occur in inner London. The most recent Inland Revenue survey estimates that an extra £600m will eventually have to be paid. Much of this loss will be concentrated in the City, Westminster, Kensington and Chelsea, and Wandsworth.

Two separate changes are about to happen. First, all non-domestic ratepayers will in future pay a single, common rate poundage. Second, this poundage will be levied on a revalued rate base. Businesses will gain where their current rate poundage is relatively high and/or where their increase in rateable valus is relatively low. Conversely, there will be losses where the existing poundage is relatively low and/or where the increase to rateable value is high.

The Inland Revenue survey sbowed tbs eetimated long-term losses for outer London as £60m, and for inner London £600m. In both cases, the whole effect will be because of the move to a common poundage rather than because of the revaluation. Put another way, the overall rateable value of London is, in relation to the rest of the UK, about right. The big increase in rate bills in central London will be entirely because of the move to a common rate poundage.

Existing low rate poundages in central London have been possible partly because successive UK governments have set systems of local government finance which delibsrately understated the exceptionally high rateable values of inner London, partly because of the spending policies of the councils concerned.

Suddenly, because of a Government policy change towards the setting of rate poundages – not because of the revaluation – most businesses in the centre of London will face very large rate rises. Yet there will be no corresponding improvement in local services. Decisions about investment and location will have been made on grounds that are now being changed to the considerable detriment of London.

Is this really the best way to enhance London's position as Europe's main financial and business centre?

Tony Travers,
The Greater London Group,
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Houghton Street, WC2

Sardines could travel sensibly

From Mr David Sawers.

Sir, One rather surprising omission from Michael Prowse's plea on behalf of the London traveller ("Sardines Want Change," November 14) was any discussion of the role of the price mechanism.

Present fares in London must be below long-run marginal cost, and for many travellers the short-run marginal cost is zero because they use a travel card (which permits unlimited travel within a specified period).

Both features of the price etructure will encourage travel.

The travel card was introduced to increase use of the London transport system at a time when it was being underused, and it does not make a great deal of sense to retain cards now that the system is overloaded.

Charging less than long-run marginal cost probably does more to increase travel; and by giving misleading signals to travellers and to employers about the cost of travel to and around London, it may well raiss employmsnt and construction in London.

If this activity would otherwise have taken place in less congested parts of the UK, the subsidised fares will reduce the efficiency of the UK economy by encouraging activity in an area where costs are high.

Investment in transport facilities for London ought ideally to be appraised on the basis of all the social costs and benefits it produces.

These benefits are not easy to value. The effect on the rest of the UK needs to be considered, not just the effect on travel in the London area. In this situation, a conventional transport cost-benefit appraisal may produce less accurate reeults than a financial appraisal.

Developers who benefit from improved transport seem a more logical source of funds for investment than taxpayers (who mostly do not benefit). Improved transport has strictly local effects on property values, and increases will be matched by decreases in the areas with unimproved transport.

The first requirement for sensible planning of improvements to London's transport system is a fare structure which reflects long-run and short-run marginal costs. When traffic at these fare levels is known, the scale and location of desirable investment can more easily be established.

It would also be easier to estimate the need for more capacity if present capacity could be fully used – which requires a return to the standards of the 1940s.

David Sawers,
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10 Seaview Avenue,
Angmering-on-Sea,
Littlehampton,
West Sussex

UK nuclear power policy

From Mr D.A. James.

Sir, David Fishlock (November 10) mentions the Central Electricity Generating Board's generation design and construction division as e possible root cause of the troubles of Britain's nuclear industry. A deeper cause is that successive UK governments since ths 1950s have failed to provide the continuity of policy whicb would have allowed a healthy industry to develop.

Apparent singleminded continuity of policy was experienced by the French nuclear industry; the lead Britain had in the late 1950s was thrown away. Doubtless the French were motivated (at least in part) by modest coal resources and no indigenous oil.

Withdrawal of the remaining UK nuclear stations from the sale of the electricity supply industry is the latest evidence of lack of understanding of power generation, unclear power generation in particular, by British politicians.

Until we have a better process, and whether we like it or not, we are going have to rely to some extent on the safe use of nuclear fission for the generation of electricity. I use the word "safe" relative to environmentally more damaging generation based on fossil fuels – notwithstanding Cheruobyl and Three Mile Island. Nothing, whether boiling an egg or generating electricity, is absolutely safe. But on both diversity of supply and environmental grounds we should build more nuclear plant.

D.A. James,
4 Sunningdale Gardens,
West Wittering,
Chichester, West Sussex

Manufacturing measurements

From Mr Keith Wade.

Sir, Andrew Glyn's "Extraordinary contrasts" (November 8) are based on data which produce an unduly pessimistic view of UK manufacturing.

The National Accounts measure of the manufacturing capital stock fails to take account of the accelerated rate of capital scrapping which followed the 1970s oil ebocks. This causes the Central Statistical Office (CSO) to overestimate the current level of the capital stock – and therefore underestimate ths impact of investment on its growth rate. More importantly, assessing productive potential on the basis of the measured capital stock assumes all investment is equally efficient.

Confederation of British Industry survey responses suggest that the UK's manufacturing productive capacity has recently been growing rapidly, as output has been maintained at a high level while the number of capacity constrained firms has been falling.

The origins of the UK trade deficit on manufactures go back to the early 1980s, when scrapping of plant and equipment reduced the UK manufacturing base and our ability to supply tradeables. It is less well known that UK productive capacity has been rising rapidly over the past three years. Our estimates suggest that capacity rose by 3 per cent in 1988, rather than the paltry 1.1 per cent recorded by the CSO; it could have risen in excess of 5 per cent this year. The implication is that recent investment has been more efficient.

Keith Wade,
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FINANCIAL TIMES
Wednesday November 22 1989

Greeks agree to form all-party government

By Kerin Hope in Athens

GREECE'S political leaders yesterday agreed to form an all-party government headed by an elderly ex-governor of the central bank, Mr Xenophon Zolotas, to rule for the next five months after two weeks of post-election bargaining.

A new cabinet, expected to be a mixture of seasoned politicians and prominent personalities, will not include either Mr Constantine Mitsotakis, the conservative leader, or Mr Andreas Papandreou, the former socialist Prime Minister.

But it will have a mandate to tackle pressing economic problems immediately, under a policy accord drawn up by party representatives after talks with the current governor of the Bank of Greece, Mr Dimitris Halikias.

Zolotas: respected economist

"This isn't a time for feeling proud or triumphant, it's a time of responsibility. For many months, Greece has been moving backwards," said Mr Papandreou.

The political uncertainty left by two inconclusive elections in the past five months has contributed to shrinking inflows of foreign capital and a widening trade deficit, as well as a record budget deficit approaching Dr2,000bn ($12bn).

Mr Papandreou, who tried to form a left wing coalition with the Communists on a platform of electoral reform, opened the way for agreement by dropping his demand for the new government to amend the electoral system in favour of smaller parties.

In return Mr Mitsotakis, whose New Democracy party finished first in the November 5 election but fell just short of a parliamentary majority, made concessions on economic policy, agreeing to socialist and communist insistence that index-linked wage increases should continue next year.

The economic policy accord also called for reducing the public sector borrowing requirement, currently a record 22 per cent of gross national product, by 2.5 to 3 per cent next year.

Public spending will be cut by 1 per cent of GNP, while tax revenues are to be increased, also by 1 per cent of GNP. Income tax for 1989 may be raised by 5 per cent as an emergency measure, while the overall tax base is broadened.

Deficits incurred by state-owned corporations are to be reduced by 1 per cent of GNP and measures will be taken to shut down some of the chronically debt-ridden companies which were nationalised during Mr Papandreou's years in power.

Mr Zolotas, 85, who will serve as Prime Minister until mid-April when parliament is to elect a new president, is an internationally respected economist.

One of the "four wise men" who founded the Organisation for Economic Cooperation and Developmeot in 1960, he is still active as a member of a committee set up to promote European monetary unioo.

Mr Zolotas was a member of a Greek delegation to the United Nations in the early 1950s before becoming central bank governor in 1955.

Congress prepares for defeat as India votes

By David Housego in New Delhi

POLLING gets under way in India today in a general election which is widely expected to lead to the defeat of the ruling Congress party of the Prime Minister, Mr Rajiv Gandhi.

The 498m strong electorate will vote over three days for the 535 seats being contested, with most constituencies polling today and Friday and a small number on Sunday. The electorate includes 14m young voters between 18 and 21 years who were enfranchised for the first time under recent legislation brought in by Mr Gandhi.

Virtually all pre-election forecasts predict the Congress party, which won 415 seats in a landslide in 1984, will lose its overall majority. In anticipation of this, share prices have slid in the campaign.

The Bombay Stock Exchange index fell 6 per cent from its peak on October 29 at the start of the campaign to 707.50 on Monday – though it staged a modest rally yesterday. Worst hit have been companies with close connections to the Congress party - above all the Reliance group, controlled by Mr Dhirubhai Ambani.

Elections are also being held for five state assemblies, including Uttar Pradesh, the largest state, Andhra Pradesh and Karnataka.

In the event of the Congress being defeated, the National Front alliance led by Mr V.P. Singh is expected to form an administration. But to have an absolute majority it would need the support of either the Hindu militant BJP party or the Communists, both of whom are expected to emerge as strong minority groups in the new parliament.

The front includes Mr V.P. Singh's northern-based Janata Dal party and five regional parties, of which the most important are from the south.

The opposition has said that it will pursue inquiries into the Bofors scandal if it is returned to power – thus further casting doubts over the future of Mr Gandhi who has been accused of covering up commission payments made to those within his inner circle.

If the election fails to produce a clear parliamentary majority, the President, Mr R. Venkataraman, would play an important role in forming a new government. Constitutional convention is that he would call on the largest single party in the House to form a government – which in the first instance could be the Congress party, as the National Front is not registered as a political party.

Nonetheless, the main opposition parties, which have coordinated their election strategy to defeat the Congress party, could be expected to hold together to prevent it functioning as a minority administration.

Mr Gandhi called an early election on October 17 in part in the belief that Hindu-Moslem tensions over the building of a new Hindu shrine at Ayhodhya, in north India, would provoke further opposition divisions.

The campaign has been marred by Hindu-Moslem rioting, and the Government's decision to give tacit support to Hindu fundamentalists over the Ayhodhya shrine is believed to have alienated Moslem voters.

Though Congress is expected to hold its own in the south and west of the country, it is likely to suffer serious reverses in the populous Hindi-speaking belt of the north. Several ministers stand to lose their seats, though Mr Gandhi seems likely to retain his at Amethi.

Poised for a new beginning, Page 18

Europe pushes for uniform law on oil spills

By Kevin Brown, Transport Correspondent, in London

EUROPE'S leading shipping countries yesterday embarked on an attempt to persuade the US Congress to bring US law on liability for maritime oil spills into line with the rest of the world.

In a highly unusual move, the UK Government released the text of a letter to Mr Samuel Skinner, the US Transportation Secretary, setting out why Congress should accept two agreements on liability reached by the International Maritime Organisation, the UN agency for safety at sea.

The letter was signed by Mr Cecil Parkinson, the UK Transport Secretary, on behalf of 10 European countries with substantial shipping interests, including West Germany, France and Greece. It also has the European Commission's support.

The letter is intended to help Mr Skinner persuade a forthcoming congressional conference committee to accept a bill passed by the House which would allow the US to ratify the agreements, rather than a Senate bill which would not.

However, officials said the governments were aware their intervention could be counterproductive if it was seen on Capitol Hill as foreign interference in congressional debate.

The IMO formula for implementing the agreements means they cannot come into force anywhere until ratified by the US.

The agreements would raise the limit of liability for oil pollution from $73m to $248m, paid by shipowners, their insurers, and an international fund financed by a levy on oil imports.

US proposes anti-dumping rule changes

By William Dullforce in Geneva

THE US proposed yesterday that the penalties governments can impose on products imported and sold at unduly low prices should be extended in scope and made more effective. At the same time, it suggested that anti-dumping action should be made more predictable and fair.

Washington's ideas were contained in a proposal for the revision of Gatt's anti-dumping code presented by Mr Eric Garfinkel, US Assistant Secretary of Commerce, to a negotiating group in the Uruguay Round trade talks.

In a world in which multinational corporations offer to sell entire computer systems for a fraction of a penny, effective anti-dumping rules were essential to stem protectionism and protect legitimate competitors from unfair practices, Mr Garfinkel said.

However, the US believed that anti-dumping procedures should not be used for protectionist ends, to disrupt normal commercial transactions or harass fair traders.

Anti-dumping action became controversial after its use by the European Community to stem imports of cheap Japanese and other Asian goods. Trade analysts argue that the EC has been using anti-dumping as an alternative to more overtly protectionist measures.

Mr Garfinkel said that in the US view, an anti-dumping mechanism that was "predictable, transparent, subject to due process and sanctioned by Gatt" was a better alternative to current protectionist measures, which include voluntary export restraints.

The US wants the Gatt code updated to take into account modern business practices, in which a product is frequently manufactured in two or more places, assembled in another location and shipped to yet another destination.

These methods, it is claimed, make it too easy for companies to avoid legitimate anti-dumping action. The US proposes, in Mr Garfinkel's words, "a very clear and open mechanism" for dealing with circumvention.

Washington wants action reinforced against three "classic" types of circumvention:

● Where parts of a product are shipped for assembly in the importing country, and their value equals or exceeds a given percentage of the total value of the finished product.

● Where the value of parts assembled in a third country before shipment to the importing country exceeds a given percentage of the value of the final product.

● Where producers in a supplier country hit by anti-dumping action begin shipping to the importing country products which have been altered slightly to place them outside the scope of the original action.

In addition, the amended code would provide for "accelerated relief" for domestic producers against recurrent injurious dumping and for "exceptional measures" to be taken against repeated corporate offenders.

US advisers held after attack on San Salvador hotel

Continued from Page 1

for assistance had been limited to appeals for small arms and riot control gear. However, be stressed that the Administration was keeping close contact and making plans.

The White House statement says the "Marxist guerrillas (the FMLN) have shown their true colours. They are attacking defenceless citizens in a civilian hotel. They have embarked on a deliberate road of violence."

But Venceremos, the FMLN radio station, warned the US not to take any precipitate action if it wanted to protect the lives of the four captured advisers.

On Monday the Government was claiming to have regained total control of the capital after nine days of fighting for the northern and eastern working-class suburbs. These were occupied by the guerrillas on November 11 but they gradually withdrew over the weekend after intense aerial bombardment all week.

The guerrillas appear to have regrouped and to have shifted tactics to focus their offensive on the wealthier suburbs of the capital.

The guerrillas are apparently hoping that aerial bombardments will again be used to dislodge them, thereby causing extensive damage to the property of government supporters. Venceremos also claimed the guerrillas had shot down a government helicopter near the Sheraton Hotel yesterday.

Continued fighting is also being reported from the eastern city of San Miguel, which, like San Salvador, had many of its suburbs occupied by the FMLN at the beginning of the offensive.

When the rebel offensive began, the US said it was confident that the government of President Alfredo Cristiani would be able to handle the situation. Asked if this was still Washington's position, Mr Fitzwater replied: "In an overall sense, yes."

● A correspondent for the Reuter news agency was wounded in San Salvador yesterday. Mr Paul Iredale, 38, Reuter's chief correspondent in Central America, was hit in the back by shrapnel thrown up from machine-gun fire as he drove to work. He was not seriously injured, and was taken to a clinic for observation.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	18	64	Dubrovnik	C	12	54	Malta	F	20	68	Rhodes	R	16	61
Algiers	S	25	77	Edinburgh	C	8	46	Manchester	C	11	52	Rio de Jo	C	34	93
Amsterdam	F	11	52	Faro	F	18	64	Manila	C	28	82	Rome	F	18	64
Athens	S	17	63	Florence	C	14	57	Melbourne	S	26	79	Salzburg	S	6	43
Bahrain	S	26	79	Frankfurt	F	5	41	Mexico City	F	25	77	San Francisco	S	9	48
Bangkok	F	31	88	Funchal	F	21	70	Miami	S	16	61	Seoul	F	11	52
Barcelona	S	18	64	Geneva	R	6	43	Milan	F	11	52	Singapore	R	25	77
Beirut	-	-	-	Gibraltar	R	16	61	Montreal	Sn	-5	23	Stockholm	Sn	-1	30
Belfast	C	8	46	Glasgow	C	9	48	Moscow	C	-2	28	Strasbourg	F	6	43
Belgrade	C	13	55	Guernsey	S	13	55	Munich	S	4	39	Sydney	S	21	70
Berlin	Fg	-2	28	Helsinki	Sn	-3	27	Nairobi	R	18	64	Taipei	F	25	77
Biarritz	F	18	64	H. Kong	S	23	73	Naples	C	17	63	Tangier	C	17	63
Bombay	S	34	93	Innsbruck	S	9	48	Nassau	F	28	82	Tel Aviv	S	20	68
Bordeaux	S	18	64	Inverness	C	7	45	New Delhi	S	26	79	Tenerife	F	24	75
Brussels	F	12	54	Islamabad	F	24	75	New York	F	2	36	Tokyo	S	17	63
Budapest	S	4	39	Istanbul	F	9	48	Nice	R	12	54	Toronto	S	-6	21
B. Aires	F	25	77	Jakarta	R	31	88	Nicosia	F	19	66	Tunis	S	21	70
Cairo	S	25	77	Jersey	S	13	55	Oporto	R	14	57	Valencia	F	17	63
Cape Town	-	-	-	Jo'burg	-	-	-	Oslo	C	3	37	Venice	F	11	52
Caracas	C	27	81	Lima	F	23	73	Paris	F	13	55	Vienna	C	1	34
Casablanca	R	17	63	Lisbon	F	17	63	Peking	S	11	52	Warsaw	Fg	-3	27
Chicago	S	-2	28	London	Fg	8	46	Prague	Fg	-4	25	Washington	S	3	37
Cologne	C	11	52	Los Angeles	S	15	59	Reykjavik	S	0	32	Zurich	C	3	37
Copenhagen	F	3	37	Luxembourg	C	7	45								
Corfu	F	18	64	Madrid	R	11	52								
Dallas	-	-	-	Majorca	F	20	68								
Dublin	Dr	10	50	Malaga	Dr	16	61								

Readings at mid-day yesterday
C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

World Bank warning

Continued from Page 1

Bank's calculation.

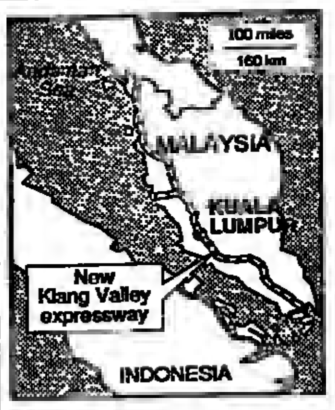
This target requires a 4 per cent a year increase in real terms of Official Development Assistance (ODA), together with further debt relief, says the report. The Bank estimates a gross ODA requirement of $22bn a year (at 1990 prices) by the year 2000.

Setting out the main areas of reform, the report warns: "None of these measures will go far, nor will much external aid be forthcoming, unless governance in Africa improves. Leaders must be accountable to their peoples."

The theme is bluntly expanded in the course of the report, which among other measures urges greater attention to "grass roots development policies" and what it terms "empowering ordinary people."

"Many governments are wracked by corruption and are increasingly unable to command the confidence of the population," the report says.

"For the most part Africa is simply not competitive in an increasingly competitive world."



Malaysian private road finance in place

By Peter Montagnon in London

MALAYSIA'S ambitious plan to develop an 870km network of privately owned roads passed its main financial burdle yesterday with the completion of a 2.07bn ringgit ($758m) loan, the largest loan ever arranged for any borrower in the Malaysian capital market.

The funds will go to Projek Lebuhrya Utara-Selatan (Plus), a consortium formed by United Engineers (Malaysia) last year to undertake the 6bn ringgit project, which is second in size only to the Anglo-French Eurotunnel in the growing ranks of private sector infrastructure projects now being undertaken around the world.

When completed, tbe network will transform the trunk road system of peninsular Malaysia, running from the Thai border to Singapore and west from Kuala Lumpur along the Klang valley.

Bankers said the scale of the project was a boost for the build-own-operate concept in which private developers are being encouraged to establish infrastructure projects in developing countries. Malaysia has turned out to be a good candidate for such projects because of its deep capital market, which bas allowed funds to be raised domestically, thereby ohviating exchange risk.

Under its concession from the Malaysian Government, Plus has undertaken to design, finance and construct 462km of new highways, the 35km Klang Expressway and improve other roads within a period of seven years. It has to maintain these highways over the 30-year concession period.

It has also taken over 371km of completed sections of highway, which will generate toll revenue to help finance the building works.

Yesterday's loan, to which 45 banks are contributing, was the big test of the project, however. According to Mr Patrick Crawford of Morgan Grenfell, the UK merchant bank which has been advising Plus, only some 500m ringgit now remain to be raised and this is most likely to come also from the Malaysian market rather than in Eurocurrencies.

The balance of the funds are to be provided through a subordinated loan of some 1.76bn ringgit from the Malaysian Government, from toll revenues and from equity.

Managed by Amanah Merchant Bank, Bumiputra Merchant Bankers and Aseambankers Malaysia, yesterday's loan has a 15-year life. Interest cbarges will float at rates related to the local prime lending rate or short-term money market rates for Malaysian currency.

Malaysia has already experimented with similar, smaller private sector projects for both roads and water supply. Low inflation and a relatively stable currency have made financing these projects easier than for other countries.

The project will involve some 40 main construction contracts which will be let by Plns to international and Malaysian contractors.

THE LEX COLUMN

Warburg's peak performance

Tha market backdrop for today's water pricing is shaky, but could have been worse. Yesterday saw a further slide in sterling to under DM 2.85 and a profits warning from Tarmac. Had it not been for a flurry of cash hids totalling nearly £600m in 24 bours, the FT-SE might not have survived yesterday as well as it did.

Warburg

Yesterday's remarkable figures from Warburg seem final confirmation of its status as the UK's national champion in global investment hanking. Granted, almost a quarter of interim pre-tax profits of £103m will have been due to the Gateway deal. But there are some higgish deals to be booked in the second half, from Eurodisney to Jaguar and Plessey; and in securities trading, profits are now being made not only in UK equlties hut – more strikingly – in gilts.

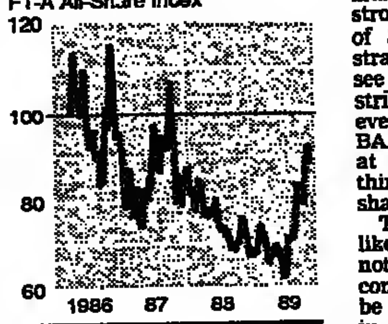
The question is wbether this is the peak. Whatever the longer-term future of corporate deal-making in Enrope, the immediate risk in the UK is that recession will stop acquirers in their tracks, or at least make them more leisurely in picking victims. As for UK equity trading in the second half, last year's December price war will donhtless not be repeated; hut the January surge may not be either.

Warburg would point to its international profits, whicb – though not of course disclosed – are supposedly larger than before. It would also claim that its worldwide operations enable it to mount deals of a complexity remote from tbe commodity end of corporate finance. But if the quality of earnings is improved, it is not hefore time. Earnings par share are now just 13 per cent higher than in the first balf two years ago.

Hence the humble rating of the shares, which at 437p are on a prospective multiple – guessing at £175m pre-tax for the year – of just 8. Hence also the contrast with Warburg's quoted subsidiary Mercury Asset Management, whose shares since flotation in early 1987 have outperformed Warburg's hy 120 per cent.

S G Warburg

Share price relative to the FT-A All-Share Index



TSB

There are plenty of bankers who would love to have the same problems as the dear old TSB Group. It has no Third World deht exposure, far too much capital, surplus retail deposits and a huge and largely undeveloped customer base. Nevertheless, its shares have underperformed the market by 10 per cent over the last year, and 20 per cent over two years. Not even Standard Chartered or Midland Bank have turned in such a miserable performance.

But the TSB continues to blame its abysmal record since flotation on the problems of its past structure. The latest massiva restructuring is an attempt to come to terms with the group's central prohlem of a cost/income ratio which is badly out of line with the conventional competition, and makes a newcomer like the Abbey National look exceptionally attractive. However, no one is saying whether the restructuring will provide a net benefit or cost to the bottom line in the current year. And it has to be taken on trust that the new management team can undertake a massive reorganisation of tbe retail bank without damaging the gronp's undonhted core strengths.

The TSB's credibility would be greatly improved if, instead of waffling on about its mission, it began lobbying tbe Government to withdraw its anti-takeover protection before it expires in a couple of year's time. The threat of a hostile takeover would be a very powerful guarantee that TSB's revolving management team was finally going to have to deliver.

BAA

What prica 11 used air terminals? The issue is more than academic, after yesterday's announcement by BAA of half-yearly pre-tax profits up 18 per cent at £187m. BAA has asked its advisers to look into putting a market valua on its terminal huildings, with their 1.2m square feet of office and retail space. This suggests some intriguing thoughts.

BAA has no pressing need to make its balance sheet look stronger, since its net gearing of 30 per cent is bardly a strain. It is far-fetched, too, to see the thing as a pre-emptive strike against predators. Whatever ADT's 6 per cent stake in BAA says about its attractions, at least for now Mr Ridley thinks it deserves its golden share.

The terminal valuation looks like a curious new twist on the notion of BAA as a property company. BAA knows it could be playing on a sticky wicket in 1991-92, when paying for its new Stansted terminal cuts into its profits; and later that decade, the chances are it will have to spend still more. Hence the naed for new earning streams, from hotels or property development.

The point about the terminals is that there is, apparently, a growing market for them; last month, Pan Am eased some financial problems by passing a JFK terminal lease to its pension funds. In theory, BAA could sell long leases on its terminals to airlines, with British Airways presumably first in the queue. Not only would this produce a lot of casb, given that the price of a terminal would rest on the income from retailing and duty-free; it would make BAA look even more like a property investment company.

UK Paper

It should be Bowater's shareholders who are most upset by the price being pnt on UK Paper. Having been sold to the management for £38m a little over three years ago, UK Paper is now selling itself to the Finns for £263m; and judging hy yesterday's closing price of 332p there are a few optimists who believe that there could just be a higher offer.

A multiple of over 16 times historic earnings looks generous hy comparison with the 10 times earnings Georgia-Pacific is offering for Great Northern Nekoosa. And while there is a world of difference between the US and UK paper industries, UK Paper's shareholders can hardly quibble with the 144 per cent rise in the share price since flotation compared with a gain of less than 20 per cent in the market. They are selling out at tbe top of the cycle. That said, the price is not over-generous, especially if the more optimistic estimates of the property potential are to be believed. Nevertheless, a hostile counter-bid seems unlikely.

FINANCIAL TIMES
COMPANIES & MARKETS
Wednesday November 22 1989

INSIDE

Missing out on the party

There has been a notable absentee from the list of continental European institutions which have bought many of London's best-known fund management companies in recent months. Although two of the purchasers have been West German, Deutsche Bank, the country's biggest bank, has not been among them. The omission is particularly surprising because the bank has been among Europe's most acquisitive companies this year in its drive to become one of world's top banks in the 1990s. Haig Simonian investigates. Page 22

Unrest in the Regina hive

The queen bee has left the hive, delivering Regina Health & Beauty, the manufacturer of royal jelly, firmly into the hands of the financial men. The resignation of Mrs Irene Stein, chairman and founder of a company which claims among its customers numerous members of the British royal family and the entire Millwall football team, is understood to result from boardroom differences about cost control. Page 28

Harvest in crisis

Six weeks into the Ivory Coast's cocoa harvest, the season is running a month behind schedule. Cocoa arrivals at the ports of Abidjan and San Pedro currently stand at 50,000 tonnes, compared with 140,000 tonnes at the same stage last year. The reason, says the country's commodities marketing board, is that shippers are having problems coming up with funds. Mark Huband looks at the worsening crisis caused by overproduction and falling prices. Page 34

Hurdle for the Brady Plan

An important potential problem with the plan to deal with developing country debt launched by US Treasury Secretary Nicholas Brady (left) is that banks are expected to participate voluntarily in debt-reduction or new money arrangements. But it may prove difficult or even impossible to induce a sufficient number of banks voluntarily to reduce their aggregate claims on particular debtor countries to levels that are sustainable. Page 27

Monument to growth

Monument Oil and Gas, the fast-growing UK independent oil company, is to double in size with the £61.7m acquisition of Renown Energy from its joint owners, Kleinwort Benson and Hanson. The deal, to be financed by a £62.6m share issue, caps off 18 months of hectic expansion after 40 per cent of Monument's shares were acquired in July 1988 by Nimex Resources, which is managed by Mr Tony Craven Walker, former chief executive of Charterhouse Petroleum. Page 31

Chief price changes yesterday

FRANKFURT (DM)				PARIS (FFr)			
Rises				**Rises**			
Holzmann (P.)	1185	+	15	BP France	131.5	+	3.4
Lahmeyer	1065	+	10	Bull Invest	1020	+	27.7
Nixdorf	325	+	6	Galeries	582	+	17.5
[illegible]	550	+	25	Schneider	660	+	20.4
Falls				St Gobain Par	1250	+	46.8
Daimler-Benz	642	–	14	**Falls**			
Mannesmann	268.8	–	5.7	B.I.P.	840	–	51.7
Volkswagen	438	–	8.1				
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Avon Products	36⅛	+	1⅛	Casio	1020	+	95
Citi. Group	29⅝	+	1	Leasec	868	+	88
Falls				Mitsui Leather	1600	+	150
Georgia Gulf	45½	–	6⅞	Nakanogumi	1380	+	130
Martin Marietta	39⅞	–	1½	Nippon Kokan	1030	+	101
Tandem Electric	13⅞	–	1⅜	Tokyo Sokutaa	2750	+	290
UAL	159	–	5⅛				

New York prices at 12.30pm.

LONDON (Pence)							
Rises				**Falls**			
AAH	397	+	8	BET	255	–	6
Crayonel	449	+	5	BICC	430	–	5
Guinness	587	+	8	Cookson	281	–	3
Hestair	228	+	7	Higgs & Hill	404	–	8
ICI	1086	+	7	Invicta	168	–	7
Laing	469	+	9	Kwik-Fit	120	–	5
Lonrho	285	+	7	Pifco	328	–	16
Reuters	912	+	18	RMC	647	–	7
Southwark	533	+	55	Smiths Inds	298	–	5
Smith D.S.	323	+	10	Tarmac	211	–	26
Smurfit Jeffs.	355	+	13	Wimpey	226	–	4
UK Paper	332	+	6				

Finns in £263m agreed bid for UK Paper

By **Maggie Urry** in London

METSA-SERLA, a leading Finnish forest products group, yesterday announced an agreed £263m ($410m) takeover bid for UK Paper, the British paper maker. The cash offer is 330p a share, and UK Paper's share price rose from 296p to close at 332p.

Analysts and institutional investors suggested that UK Paper was selling oot too cheaply. The shares have been buoyed by rumours of a bid at a higher price, with some investors looking for a counter bid at up to 400p a share. UK Paper and its merchant bank, Schroder Wagg, said the price was "fair and reasonable."

Mr Tom Wilding, UK Paper's chairman, explained that the group had had discussions with a number of possible bidders over the last six months or so. The board decided to recommend Metsä-Serla's offer because "if we are going to be tied up with anyone, this is the sort of group we want to be with." The management will stay on and run the company on a fairly independent basis.

The board and employees who invested in the group when it was bought out from Bowater Industries in 1986 for £88m, will have made enormous gains on their investments.

Mr Wilding said the board had done "a damn good job for shareholders" in negotiating the 330p price, but he did not rule out the possibility of a counter-bid. The directors hold 7.5 per cent of the shares and have indicated an intentioo to accept the offer, though irrevocable acceptances have not been given.

Mr Gustaf Serlachius, chairman of Metsä-Serla, said the deal was based on industrial logic, such as vertical integration and shared technological know-how, as well as the need to be larger in order to compete as the paper industry becomes evsr more international.

UK Paper specialises in fine papers, while Metsä-Serla makes pulp, paper, paper products, chemicals and building products. It is a leading tissue paper maker as well as having fine paper production. The worldwide paper industry has seen a wave of mergers and acquisitions as companies position themselves for a more competitive market.

Analysts suggested that UK Paper was undervaluing its production capacity, compared with prices paid in other acquisitions in the industry. UK Paper also has large holdings of surplus land in the south-east of England. This is currently valued at £40m but it is expected to receive planning permission for a business park which will increase its value. Analysts said as well that the importance of the acquisition to Metsä-Serla should have permitted UK Paper to negotiate a higher price.

Mr Wilding, however, said trading in the second half of the current year had proved difficult, because rising pulp prices had squeezed margins. This had not been realised by the stock market, he said. The company also said the value of the surplus land "is fairly reflected in the offer."

Lex, Page 20.
Background, Page 30

Luft leaves Nixdorf in the twilight zone

Andrew Fisher and **Alan Cane** on the uncertainty facing the West German computer group

The departure of Mr Klaus Luft, who resigned unexpectedly on Monday as chief executive of the loss-making Nixdorf group, heralds a new era of uncertainty and perhaps a loss of independence for the West German computer concern, once considered the brightest star in the European computer firmament.

His going is all the more surprising because the company had receotly been indicating that after heavy losses over the past 18 months, it seemed firmly on the path to recovery. This must now be in doubt.

Nixdorf's continuing tronbles will inevitahly reinforce long-standing anxieties about the ability of European computer companies to compete in world markets. Many of Nixdorf's European competitors are also struggling, notably Norsk Data of Norway, while others soch as Olivetti of Italy are in the throes of restructuring their operations.

The appointment of Mr Horst Nasko, 56, the telecommunications director, as board spokesman (not management board chairman), is seen in and outside the company as a temporary solution until Nixdorf's future becomes clearer.

Before this can happen the company's shareholders and bankers will need a better picture of the extent of Nixdorf's problems, and what changes need to be made and how much it will cost to set the company back on a course to profitable growth.

The scale of the company's losses and now the departure of senior executives inevitably raise again the possibility that a financial alliance could be the best way out of its difficulties. Last year, Nixdorf made a pre-tax loss on normal operations of DM60M. Mr Arno Bohn, the marketing director, resigned, taking some of the blame for the downturn.

Now facing losses of DM465m in the first nine months of the year Mr Luft, 48, has followed suit. If he had not handed in his resignation as the company's supervisory board started its meeting, he would have probably been forced to go by a vote of no confidence, sources close to the company indicated this week.

A grimmer than expected picture is now beginning to emerge of the scale of Nixdorf's problems. Former Nixdorf managers – the company has recently seen the departure of a number of top sales staff – say that Mr Luft had not only lost the confidence of shareholders through consistently failing to air the facts, but had also lost esteem among the workforce.

Nor had he, or Mr Sven Kado, the finance director, been ruthless enough in grasping the cost nettle and pushing through its change of strategy from a manufacturer of its own, proprietary hardware to an integrator of systems based on common industry standards. This has become the preferred strategy for small computer companies these days. The company is taking steps to counter its deficiencies, but profound changes in strategy take time and cost money.

The senior management at Nixdorf was slow to realise its predicament. "Management controls?" said Mr Adrian Brundrett, an analyst with Bank in Liechtenstein in Frankfurt, "They were hardly ever in place. It was a very lax, do-it-yourself, free-wheeling organisation that was fine as long as things were going well. Nixdorf was not geared for a downturn in the sense of controls and management rightness."

Mr Luft, however, cannot be blamed for the technological revolution which is undermining the structure of the world computer industry and which has wrought havoc with the balance sheet of virtually every minicomputer manufacturer. Companies in trouble include Norsk Data of Norway, and Wang, Data General and Prime Compoter of the US.

Mr Eckhard Pfeiffer, European president of Compaq, the US-based leader in high performance personal computers and a friend of the founder Heinz Nixdorf who died unexpected in 1986, says the groundwork for Nixdorf's present problems was laid in the 1980s when the company failed to realise that personal computers would take business from minicomputers, just as minicomputers took business from mainframe computers.

A fundamental problem with Nixdorf's long-tern strategy seems to have been a decision to continue with its own highly successful proprietary hardware systems rather than join the industry switch to common standards. It also concentrated on geographically narrow markets and, althongh rich in cash, lacked the depth of financial resources needed to undertake a far-reaching transformation.

The management board has never been unanimous oo whether Nixdorf should enter into financial alliances to meet these challenges. It is believed that Mr Bohn favoured such a move. Mr Luft, however, held out for continued independence. Mr Bohn, who shared responsibility for the group's acute sales problems and was a younger rival of Mr Luft, was forced to leave.

Mr Luft's exit strongly suggests that more serious consideration is now being given to the need for Nixdorf to find a more powerful partner.

Deutsche Bank, which has been at the centre of major industrial restructuring in West Germany and brought Nixdorf to the stock market five years ago, has a director, Mr Herbert Zapp, on its supervisory board. It is understood to be determined to find a "German solution" to Nixdorf's problems and would resist alternative approaches. Speculation has centred on both Mannesmann, the engineering gronp which owns the Kienzle data processing company, and Siemens, the electronics concern.

Siemens, which has had little impact in the world data processing industry to date has now revitalised its product line and could emerge as the most powerful European computer manufacturer.

There is speculation that, ironically, it could be interested in Nixdorf's fledgling telecommunications activities.

Mannesmann could be tempted into taking over the bulk of Nixdorf, and its attendant problems and losses, some say, but only if the consortium of which it is a member succeeds in winning the locrative licence for Germany's mobile telephone network to be awarded in December.

Siemens said yesterday it contínoed to follow Nixdorf's affairs with interest, but had held no talks with the company or any third parties. Nor had Mr Luft's departure changed its attitude.

Mannesmann said the same, adding it had not heen approached by Deutsche and saw no connection between the mobile phooe licence and any possible move to take on the financial burden of Nixdorf.

But increasingly it looks as if Nixdorf will be broken up – a sad eod to the dream of its founder, one of Europe's most able computer scieotists and visionary entrepreneurs.

BAA wins assurance on golden share

By **Paul Betts** and **Ray Bashford** in London

BAA HAS received a writteo undertaking from Mr Cecil Parkinson, the Transport Secretary, that the British Government will not abandon the special (golden) share that protects the former British Airports Authority from hostile takeover.

Sir Norman Payne, BAA's chairman, said yesterday that the group had sought the assurance after the Government's decision to waive its special share in Jaguar. It was this move which last month opened the way for a takeover of the British car group by Ford of the US.

Sir Norman said Mr Parkinson had distinguished between Jaguar and BAA in his letter hecause the Governmeot believed it oeeded to retain a special share in BAA to safeguard airports, which coold become strategically important during a time of national crisis.

BAA owns seveo airports, including Heathrow, Gatwick and Stansted near London. These three were the main contributors to the company's 17.7 per ceot rise in pre-tax interim profits from £158m ($246.5m) to £186m.

The oomber of passeogers using the airports grew 4.1 per cent to 39.9m. Despite this overall growth in passenger numbers, Gatwick suffered under the general decline in the short-haul charter market, which has slowed as people have beeo forced by higher interest rates to make alteroative holiday arrangements.

The Jaguar takeover focused attention oo other privatised companies in which the Government holds a golden share.

Speculatioo about BAA's future was further heightened by the building of a 6.1 per cent stake in the airport group by ADT, the electronic security and car auction group.

Sir Norman also disclosed that BAA had decided to postpone until next spring taking a decision on the construction of a future terminal, either at Heathrow or Stansted.

BAA, he said, was awaiting indications from the Transport Department on urgently-needed road improvement plans around Heathrow Airport before taking a decision oo a new terminal expected to cost about £1bo.

He again declined to comment on the resignation last August of Mr Jeremy Marshall as chief executive. However, he said he expected to announce a replacement early next year.

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Tarmac forecasts fall in profits

By **Andrew Taylor** in London

THE share price of Tarmac, Britain's biggest housebuilder, plunged on the Londoo Stock Exchange yesterday after the group said pretax profits would fall this year because of the sharp drop in UK house sales.

Stockbrokers expecting 1989 profits to rise from £393m ($609) to betweeo £410m and £420m immediately reduced their forecast to about £370m. Profits are expected to fall even further next year with forecasts ranging from £325m to £360m.

Tarmac said there had been a big increase in cancellations and reservations by house purchasers since bank base rates rose by a further one percentage point at the beginning of October. This had pushed up mortgage interest rates to about 14.5 per cent.

Tarmac's share price yesterday fell from 237p to 211p wiping more than £170m, or a tenth, off the group's stock market valuation. Other leading UK housebuilders also fell, with Wimpey decling 4p to 226pp, Taylor Woodrow by 5p to 257p and Barratt by 5p to 168p. Most UK housebuilding stocks either held steady or declined in line with Loodon prices generally.

Brokers said the severity of the downturn in the housing market had been generally discounted but Tarmac's announcement caught them by surprise. The group until two months ago had been optimistic of repeating, within 5 per cent, last year's sales of 12,169 homes. Last year just under half of Tarmac's trading profits came from housebuilding. Tarmac said last night it might achieve 11,560 sales this year with the probability of even lower sales.

The sharp fall in UK house sales has hit building material producers. Several large brick makers, including London Brick the country's biggest, have announced redundancies and plans to close kilns until demand recovers.

H&R Johnson, the UK's biggest ceramic tile manufacturer this month announced it was making 325 of its 2,300 workforce redundant because of the decline of the housing market and increased imports into the UK by Spanish and Italian tile manufacturers.

Bank base rates in Britain have doubled from 7.5 per cent to 15 per cent since May 1988. Worst hit have been home owners in south east England where sales of houses in some areas have halved. Sales have receotly started to slow in parts of northern England. According to Halifax, Britain's biggest building society, the monthly cost after tax relief of an average home loan of £58,500 in sonth east England has risen from £467.58 to £641.08 since May last year.

Warburg figures surprise City

By **David Lascelles** in London

S G WARBURG, one of the UK's leading investment banking groups, surprised the City of London yesterday by announcing it had more than doubled its profits in the first half of its current financial year. Warburg'e employees received a special 25 per cent bonus to mark the occasion.

The result far exceeded expectations, and produced a sharp rise in the group's share price. But by the close, the shares had fallen back again, to finish with a net gain of only 2p at 437p.

The market has decided that life has become tougher for Warburg since its half year ended on September 30. The collapse in share prices in October and the darkening economic outlook in the UK havs hurt prospects for the second half.

In the six months, Warburg earned £102.5m ($160m) before tax and after transfer to inner reserves. This compares with £47.8m last year and is equivalent to 31.8p (14.4p) per share.

Sir David Scholey, chairman, said the improvement stemmed from better co-operation between the various arms of the group, which spans merchant banking, securities activities and money markets. There had been particularly strong growth on the international front as Warburg became better established in Europe, the Far East and the US.

As one of the top advisers in mergers and acquisitions, Warburg has collected fees on virtually every big UK deal this year, including the £2bn bid by Isosceles for Gateway, the leading UK stores group. That deal alone probahly contribnted close to £25m to the result.

Warburg also expanded its treasury and money markets operations, and the financing and equity divisions performed well.

One weak spot was the fixed interest division, where profits were low, though Warhurg finally managed to make money on its gilt-edged dealing. Mercury Asset Management, the group's 75 per cent-owned fund management arm, raised profits by 47 per cent to £28.3m.

Sir David said the second half had begun well for Warburg with a high level of corporate activity. But equity volumes were down, and he was cautious about the outlook.

As one of the largest integrated investment banks to have been spawned by the restructuring of the City in the Big Bang in 1986, Warburg's results are a closely-watched bellwether in the City. Although analysts said the second half was likely to be less good, they said the result showed that the Warburg formula was working.

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INTERNATIONAL COMPANIES AND FINANCE

New chairman at SEB hopes to revive confidence

By Robert Taylor in Stockholm

SKANDINAVISKA Enskilda Banken (SEB), Sweden's largest commercial bank, has appointed a new chairman to replace Mr Jacob Palmstierna who resigned last week over his alleged tax evasion.

The new chairman is Mr Bo Ramfors, at present the 53-year-old head of the bank's office in Gothenburg and formerly with Hambros Bank in London.

In a wider shake-up at the top of the SEB it was also announced yesterday that Mr Rutger Barnekow, the bank's current Stockholm head, is to take over as deputy chairman.

The board of SEB hopes that Mr Ramfors will help to revive confidence in its operations after the events of the past few weeks.

The activities of Mr Palmstierna first came to light in September when the police carried out a raid of his office in search of his tax returns for the past seven years.

Mr Palmstierna, who was chairman for less than a year, denied any improprieties. The adverse pnblicity, however, was regarded by many observers as damaging to the reputation of SEB.

Mr Ramfors is highly regarded in Sweden's financial circles, though he has also had disagreements with the tax authorities in the past.

As the head of SEB he can be expected to go a long way in helping to restore whatever trust has been lost in recent days in the management of the bank's activities.

A former finance director of the Swedish state holding company Statsforetag, Mr Ramfors joined SEB in 1980, working first in the bank's south Swedish operations in Malmo and later in Gothenburg, where he has been head of the office for the past four years.

Mr Ramfors will keep his current job as well as take on new responsibilities. His international experience, accumulated while working at Hambros, is seen as particularly useful as SEB increases its banking activities outside Sweden over the next few years.

Court refuses to sequester contested LVMH shares

By George Graham in Paris

THE COURTROOM battle for control of LVMH, the French drinks and luxury goods group, continued yesterday with the refusal of Mr Philippe Grandjean, president of the commercial court, to sequester a contested packet of shares controlled by Mr Bernard Arnault, LVMH's chairman.

But supporters of Mr Henry Racamier, chairman of LVMH's luggage subsidiary Louis Vuitton and Mr Arnault's rival in the battle for control of the group, were unperturbed by the refusal, since the jndge compelled Mr Arnanlt not to sell the shares.

Mr Racamier, with a group of small shareholders, had asked for the shares to be sequestered as part of a series of lawsuits in which he seeks to have an entire issue of bonds with attached warrants annulled. These bonds were issued by Moët-Hennessy before its merger with Louis Vuitton to form LVMH.

The issua, most of which found its way to Mr Arnault, was found by the Paris appeals court to have been carried out in an "irregular" way. Mr Racamier hoped that an annulment would shake Mr Arnault's control of LVMH.

Mr Arnault replies that even if the issue were annulled, his stake, held jointly with Guinness, tha UK drinks group, would only fall from 45 per cent to 40 per cent. With the Moët-Hennessy families, he would retain control of the company, he argues.

The court hearing on the annulment case is set for December 20.

Bass and associates reveal 6% Avon stake

By Karen Zagor in New York

MR ROBERT Bass, the wealthy Texas financier, and associates have taken a 5.9 per cent stake in Avon Products, the world's biggest maker of cosmetics and toiletries, which has been in play as a takeover candidate since May.

The Bass stake in Avon, which emerged in a filing with the US Sacurities and Exchange Commission, comes on the heels of last week's announcement that Chartwell Associatee, a partnership including the Getty and Fisher families, had taken 6.5 per cent of Avon and might launch a bid for the company.

In the filing with the SEC, the Bass group said it had bought the Avon etock for investment purposes and had met Avon managers to discuss the company's recent operating history.

The news sent Avon's shares up only $¾ to $36⅛ by lunchtime yesterday on the New York Stock Exchange, compared with a jump of $5½ to $36¾ after the Chartwell holding was announced.

Avon has been fending off takeover approaches from Mr Irwin Jacobs, a Minneapolis corporate raider, and various partners of his since May. In August, Mr Jacobs mentioned a "possible price" for the company of $41 a share, or $2.2bn.

In mid-September, Avon sharply reduced its profit forecasts for next year and shares in the company fell to a low of $27.

The Bass group said that its partners included Texas Partners, Mr John Sculiy, Mr William Oberudorf, Texgenpar, the Bonderman Family Limited Partnership, Mr David Bonderman, San Francisco Partners II and Mr William Patterson.

The Robert M. Bass Group has been involved in several large deals, inclnding the purchase of the Westin hotel chain from Allegis for $1.53bn.

Mr Bass recently expressed an interest in buying Reveo, the drags store chain, which is trying to re-organise under the protection of the US bankruptcy code.

Deutsche Bank flirts with managing funds

Haig Simonian finds fund management only now catching the eye of the German bank

The absence of one particular name from the list of continental European institutions recently buying many of London's best-known fund management companies is surprising. For, although two of the purchasers were West German, Deutsche Bank, the country's biggest, was not among them.

The surprise is that the bank has been among Europe's most acquisitive companies this year in its drive to become a top-world bank in the 1990s.

And fund management should be an obvious adjunct to its ambitions in both retail and investment banking. But it appears that the business has only recently caught the attention of the bank's top executives, especially as regards the UK.

In early October, DWS Deutsche Gesellschaft für Wertpapiersparen, Deutsche Bank's retail unit trust business, started advertising its huge Luxembourg-based unit trusts to UK investors. Then within a few days, Deutsche Bank Capital Management International (DBCMI), the money management subsidiary for foreign institutions, opened a new operation in London as part of its worldwide expansion.

The need to push ahead in international fund management is twofold. Domestically, even conservative German clients are becoming more interested in spreading their risks beyond traditional D-Mark safe havens. Some are following their UK and US counterparts by putting greater stress on performance.

Meanwhile, the bank'e expansion into retail and investment banking abroad has shown the complementarity of fund management, both for private individuals and institutions.

Yet despite the potential, Deutsche Bank's international asset management business remains dwarfed by its domestic activities. Foreign clients account for only a fraction of the DM73bn ($40bn) managed by the bank.

In contrast, DWS is the biggest unit trust group in Germany, with managed funds of DM26.3bn giving it almost a 25 per cent market share. With the separate activities of another subsidiary, Luxembourg-based Internationale Investment Management, the total rises to DM35.2bn, representing 27.9 per cent of the market.

Institutional investors are handled by Degef, which accounts for nearly DM18bn under management. Like Germany's other institutional money managers, it concentrates on "Spezialfonds" – special funds – run on behalf of a variety of investors.

The bank's foreign asset management operation has gradually shifted beyond its core Middle East investors, but DBCMI's portfolio is still worth only around $3bn – tiny compared with the domestic business.

Institutions from the US and Japan, and now increasingly from neighbouring European countries, have helped to swell the total. However, both Mr Rolf Breuer, the bank's managing board member responsible for securities trading and fund management, and Mr Bill Richards, the British executive who joined DBCMI this year as joint managing director, agree that the foreign business has a long way to go.

Rolf Breuer: 'We do not believe in centralised wisdom'

A $3bn portfolio "is peanuts" for an institution of Deutsche Bank's size, admits Mr Richards.

He recognises that boosting the business will involve changes. First, the group needs to become more competitive by hiring new staff with proven performance records.

Mr Richards stresses the bank'e determination to develop its position.

"Fund management is very much a people business, and we're convinced the best way to grow is organically."

The commitment to gradual growth is underlined by Mr Breuer, although he does not rule out the possibility of acquisitions either. However, he denies that the bank has missed the takeover boat.

There have been approaches from fund management companies for sale, it adds. None, however, was felt to fit sufficiently well with the Deutsche Bank group.

But with just 40 to 45 professionals in Frankfurt, about 10 each in New York and Tokyo and six in London, the commitment to organic growth means it will take DBCMI a while to fill the rather obvious gaps in its coverage.

These are most conspicuous in the US and Far East, and, to a lesser extent, continental Europe. "The US is particularly difficult, as everyone knows," admits Mr Breuer. The bank has US clients, but "the cake is very big, and our piece is still very small."

By contrast, the Far East has been a "notable success," he claims. Fund management operations have seen 30 per cent growth in the past six months, with business from Japan and Hong Kong developing especially well.

Meanwhile, expansion in continental Europe is assisted by the bank's acquisitions in retail and investment banking. Recent purchases have brought additional funds to manage and new expertise, says Mr Breuer.

But the acquisition option is not closed. "If something comes our way which really fits, in the US or in the UK," the bank is ready to buy, says Mr Breuer.

London remains a focal point, he says: "London is and will stay the financial centre for very professional fund management." And there are still attractive names that might become available despite the sales, he thinks.

Yet both Mr Breuer and Mr Richards agree that the onus is on the bank to change internally, to boost external perceptions of its fund management capabilities. Mr Richards sees great opportunities in making other parts of the bank aware of DBCMI's potential.

"We must mobilise all these forces and contracts to show we're not just a German bank but an international fund management house," he says.

Although there is no plan to merge the three fund management operations, better co-ordination between DWS, Degef and DBCMI may also help raise the profile of the bank's fund management activities in general and that of DBCMI in particular.

Mr Breuer agrees there is scope to combine certain administrative and legal functions. And a sharper image could come by putting its fund management units under one legal roof, possibly under a single holding company with a name like Deutsche Bank Asset Management.

"We are one of the biggest fixed-income managers in the world. And Inter-Renta is one of the world's biggest public fixed-income funds," notes Mr Breuer. However, he is one of the first to agree that the non-German component of those activities is still inadequate.

"But with regard to marketing and fund management itself, we believe in the decentralised approach," he stresses. Thus the three asset management units will continue to be run separately. "We do not believe in centralised wisdom."

Bancaire up 30% in third quarter

By George Graham

BANCAIRE, tha French financial services gronp, has reported net profits of FFr823m ($132m) in the first nine months of the year, maintaining its strong growth.

Net operating profits totalled FFr804m for the nine months, a gain of 30 per cent over the same period of 1988, with total lending volume increasing 20 per cent to FFr59.1bn.

Compagnie Bancaire is one of the rare French companies to report results on a quarterly basis, having extendad its announcement, which last year covered merely operating earnings, to include full net profits. French listed companies usually announce only turnover figures on a qnarterly basis.

UCB, Compagnie Bancaire's home loan and property finance subsidiary, recovered strongly, with operating profits nearly tripling to FFr64m.

Cardif, offering life insurance and savings products, gained 69 per cent to FFr108m, while Cetelem, the group's most profitable division specialising in consumer credit, saw a gain of 49 per cent to FFr414m.

UFB Locabail, the leasing division which recently acquired Humberclyde in the UK, saw earnings in the nine months decline 12 per cent to FFr196m, and Locabail Immobilier, the property leasing company, saw an 8 per cent drop to FFr199m.

Upturn boosts Dorbyl

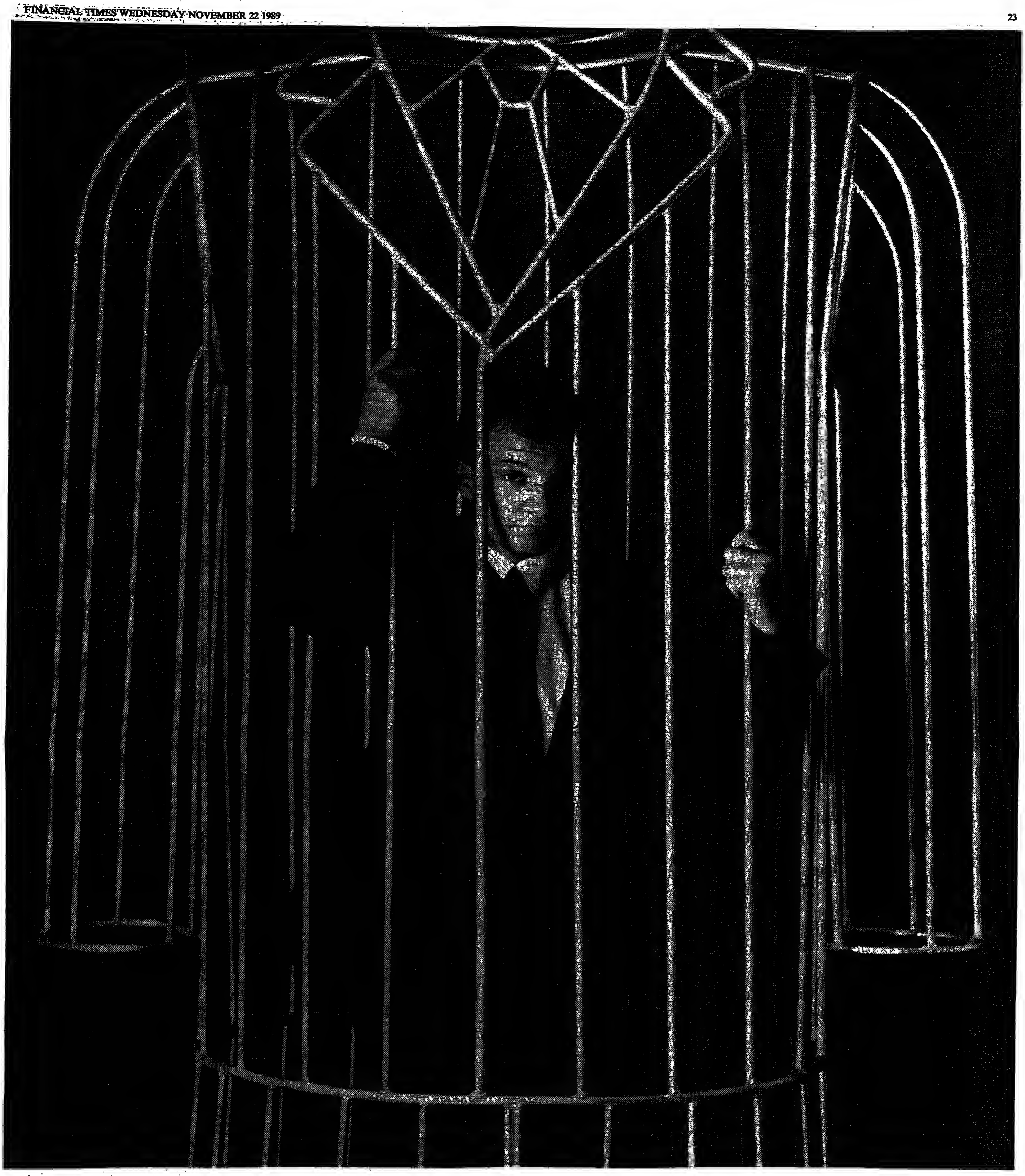
By Jim Jones in Johannesburg

GREATER spending on infrastructural developments and industrial expansion combined with buoyant conditions in the motor industry to lift sales and profits of Dorbyl, the South African heavy engineering group, in the year ended on September 30.

Turnover rose to R2.5bn ($950m) from R2.08bn a year before, while the operating profit before interest and tax was lifted to R186.m from R129.0m and the pre-tax profit increased to R156.1m from R105.8m.

Mr Floris Kotzee, chairman, said there has been an encouraging turnround in the marine, heavy engineering and transport products sectors. Dorbyl has won contracts to supply the Mossel Bay gas project.

The year's earnings per share increased to 351.4 cents from 251.5 cents previously and the dividend has been raised to 100 cents a share from 77 cents.



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INTERNATIONAL COMPANIES AND FINANCE

Job cuts and charge at Texas Instruments

By Roderick Oram in New York

TEXAS INSTRUMENTS, a leading US maker of semiconductors and other electronic equipment, is to take a $58m pre-tax charge in the fourth quarter for restructuring costs.

The charges could leave it close to break-even for the period. A year earlier, it earned $93.7m, or $1.05 a share, but before the restructuring, news analysts had forecast profits would drop to around 60 cents a share.

The actions cover several of its businesses including semiconductors and will result in the loss of 1,500 jobs mainly in the US. Worldwide, Texas employs some 75,000 people.

The company said that near-term demand for semiconductors was sluggish but it would continue to add capacity to make the latest generation of very large scale integration (VLSI) chips for which demand was strong.

The restructuring charges stem in part from the closing of an obsolete semiconductor plant in Dallas and the upgrading of other chip plants.

The charges also include $15m for some fixed price development contracts and $15m relating to cost-cutting programmes in the company's information technology group.

DAF to merge its bus side with rival Dutch group

By Kevin Done, Motor Industry Correspondent

DAF, the Dutch commercial vehicles group, is to merge its bus operations with Bova, a rival Dutch bus and coach builder. The two groups are forming a jointly-owned company, United Bus, in which DAF initially will hold a majority stake.

The companies are seeking further alliances in the European bus industry.

DAF said it was seeking to strengthen the United Bus operations through "acquisitions, joint ventures and co-operations" with other European bus builders.

The merger has been prompted by a joint strategy review by the two companies of the bus and coach industry in Europe and in international markets. The two groups expect demand for road passenger transport to increase in Europe in the wake of the creation of a single European market.

Both the DAF and Bova brand names will be maintained.

DAF said that its bus operations would be separated from its remaining commercial vehicles activities and would become an operating subsidiary of United Bus.

DAF supplies underframes and components for around 1,700 buses and coaches annually, of which around 1,000 are sold under the DAF name. The rest are bodied by independent bodybuilders such as Bova.

Bova, which has an annual turnover of Fl 145m ($70m), produces close to 370 buses and coaches a year. Mr Wolf Lijmer, a director of Bova, will be appointed general manager of United Bus.

Even after the merger United Bus will be overshadowed by the leaders in the European bus industry such as Daimler-Benz of West Germany and Volvo of Sweden, which last year took over the Leyland bus operations in the UK, and Scania of Sweden.

Daimler-Benz produced 4,899 buses and chassis in West Germany alone last year, while Volvo delivered 5,120 buses and bus chassis in 1988.

Georgia Gulf rejects takeover

By Karen Zagor in New York

THE board of Georgia Gulf, a leading integrated chemical producer, said yesterday it would undertake a leveraged recapitalisation and reject a $50 a share, or $1.2bn, takeover offer from NL Industries, a Houston-based chemical company controlled by Mr Harold Simmons.

However, it said it had not completed financing for the recapitalisation. Under such transactions a company borrows heavily to pay a large special cash dividend to shareholders or to buy back shares. Its shares fell $7 to $45⅝ on the news.

Georgia Gulf said it had also "concluded discussions with third parties who have indicated an interest in a possible business combination with or acquisition of Georgia Gulf."

Earlier in the year, NL, which holds a 9.9 per cent stake in Georgia Gulf, suggested to Georgia Gulf's board that recapitalisation would be one way of improving shareholder value. Other proposals included a strategic acquisition, a joint venture, the sale of the company or other business combination.

Georgia Gulf was formed in a $275m management buy-out of Georgia-Pacific's chemical division. It is a leading producer of chlorine, brine, caustic soda and petrochemicals.

Last year it reported net income of $193.6m or $6.75 a share on sales of $1.05bn. Analysts expect earnings of about $7.60 a share this year and about $6.75 in 1990, reflecting a downturn in economic conditions.

Analysts value the company at about $60 a share, in spite of growing weakness in some sectors of the chemical industry.

Georgia Gulf said there can be no assurance that any transaction, including a leveraged recapitalisation, will be recommended, authorised or consummated.

Horsham to lead expansion programme

By Robert Gibbens in Montreal

MR PETER MUNK, chairman of American Barrick Resources, intends to use Horsham, a management holding company he controls, for an aggressive takeover programme in the world resource and industrial fields. He also expects Horsham's subordinate voting shares to be trading in New York by the end of the year.

The company has assets of more than C$2bn (US$1.7bn), including 24 per cent of gold producer American Barrick and 60 per cent of Clark Oil and Refining of the US, acquired recently for C$535m.

Mr Munk owns all 7.5m Horsham multi-voting shares, and his associates control a sizeable proportion of the 77m subordinate voting shares. A special shareholders' meeting in Montreal approved giving the multi-voting stock 50 votes per share, up from 10, thus cementing Mr Munk's control.

Third-quarter net profit was US$10.9m (US$1m). In the nine-month period Horsham earned US$32.6m (US$5.1m) on revenues of US$1.5bn ($2.2m).

Petro-Can set for privatisation

By Robert Gibbens in Montreal

A CLEAR hint that the Government was ready to go ahead with privatisation of Petro-Canada, the national oil company, next year if market conditions were favourable has been given by Mr Wilbert Hopper, its chairman.

Mr Hopper told a senate committee that the federal government must put up another C$500m (US$427m) equity for Petro-Can or allow it to sell off its frontier oil and gas development assets and get it into shape for privatisation.

Petro-Canada has grown from a small federal agency formed to rescue arctic exploration from a reluctant private sector in the early seventies to a C$8bn fully integrated national oil company, whose stock is 100 per cent held by the federal government.

Its most controversial move was the acquisition of Petrofina a decade ago for what critics claim was nearly $2bn or twice the real value.

The then Trudeau Government was trying to "Canadianise" the domestic oil and gas industry.

Petro-Can is now saddled with part of the costs of developing expensive frontier oil and gas reserves, including Hibernia off the East Coast.

The company has more than C$1bn in long-term debt and this would rise sharply by 1994 if the frontier projects go ahead.

Mr Hopper said Petro-Can could sell off its interests in the Hibernia (25 per cent) and companion Terra Nova (44 per cent) offshore oil fields in the Eastern and in the Oslo (15 per cent) oil sands project in Alberta to the highest bidders, domestic or foreign, and it would then be in a position for privatisation.

That could be done in more than one step. A first tranche could bring 10 to 20 per cent of the company to market in the biggest privatisation move since the federal government sold control of AirCanada earlier this year.

Mr Hopper said Ottawa no longer needs PetroCan as a window on the oil and gas industry, since that role can be played by the Department of Energy.

This year PetroCan has reported sharply lower earnings, partly because of low upstream oil prices, and it has begun rationalising and selling poorly performing assets.

It is trying to expand its natural gas activities to profit from rising volume and prices.

In Ottawa the government will say only that PetroCan's privatisation will go ahead when stock markets are favourable.

● Institut Merieux, the serum-making subsidiary of France's Rhône Poulenc, has sweetened its offer for Canada's Connaught BioSciences by promising to offer back half of Connaught's stock to Canadians within six months of its bid being accepted.

Merieux is offering C$37 a share for the Connaught stock it does not already own, valuing the company at nearly C$1bn (US$855m).

The French group has also promised to keep certain Connaught research activities in Canada, and has said that it would offer its own shares to Canadians within 18 months of acceptance.

Pinnacle unit reveals further loan losses

By Roderick Oram in New York

PINNACLE West Capital, the Arizona holding company, has disclosed additional large loan losses at MeraBank, its troubled savings and loans subsidiary. It expects the unit to report "significant" losses for the fourth quarter.

MeraBank, wracked by the mid-1980s real estate collapse in the southwestern US, has accumulated a portfolio of $1.08bn of bad loans and under-performing assets, up from $704.3m at the end of last year, it reported in a regulatory filing.

The subsidiary's loan loss reserves were only $126m, resulting in net underperforming assets of $956.6m. Pinnacle West is still negotiating with federal regulators who are demanding that it pumps at least $516m into MeraBank.

The financial difficulties extend from MeraBank to the holding company. Pinnacle West itself needs $165.3m by January 8, mainly for debt payments. It is still $74m short of that goal.

Its bankers led by BankAmerica have refused to let it draw more money on its $300m revolving line of credit. The company says it could also default on debentures issued to fund its $421m purchase of MeraBank two years ago.

Laidlaw plans C$515m rights issue

By David Owen in Toronto

LAIDLAW Transportation, the Canadian waste management and school bus company in which Canadian Pacific, one of the country's biggest conglomerates, holds a 47 per cent voting stake, is to issue 20m new non-voting shares for gross proceeds of C$515m (US$440m).

The stock will be sold to a large underwriting syndicate led by RBC Dominion Securities. Canadian Pacific is to purchase 10m of the new shares, raising its share of Laidlaw's total equity to approximately 20 per cent from its current level of 17.3 per cent.

The issue price of C$25⅞ per unit represents a small discount to Monday's Toronto closing price of C$26⅞ for the company's Class B stock. By noon yesterday, however, the shares had fallen by C$⅞ to C$25⅞.

Laidlaw, which has links to ADT, the UK-managed electronic security protection and vehicle auction group, intends to use the proceeds of the issue to reduce its debt liabilities.

The Burlington-based company has also granted the underwriters an option to buy up to a further 1m shares.

CORRECTION
Hewlett-Packard

HEWLETT-PACKARD achieved total sales of $3.38bn in the final quarter of 1988-89 and $11.9bn for the full year. Due to an agency error, these figures were wrongly given on Monday.

INTERNATIONAL COMPANIES AND FINANCE

Lowering of tax rate boosts ICI Australia

By Chris Sherwell in Sydney

LOWER corporate tax rates helped ICI Australia, the 62.6 per cent-owned subsidiary of the UK multinational, to an 11 per cent rise in after-tax profit for the year to September.

Figures released yesterday showed earnings of A$194m (US$151.6m), up from A$174m, on a meagre 4.5 per cent rise in revenues to A$3.14bn.

Pre-tax profits were down 1 per cent, but extraordinary items of A$44m lifted the bottom line to A$238m, up 55 per cent.

The company said the results were affected by wet weather (which restricted fertiliser sales), import competition, a higher Australian dollar and production problems.

Profits were depressed by redundancy costs and expenses relating to rationalisation moves, while sales were curtailed by the disposal of two businesses and a softening of demand in the second half.

Higher interest rates and higher fertiliser stocks lifted the group's net interest expense 46 per cent to A$52m. However, the corporate tax rate cut, to 39 per cent from 49 per cent, reduced the tax expense to 38.3 per cent of pre-tax profit compared with 42.8 per cent the previous year.

Consumer products continued to contribute the biggest proportion of sales, at A$1.12bn, and showed the largest profit jump, to A$79m from A$59m. However, the plastics division again made the biggest contribution to profit, at A$142m, followed by industrial and specialty chemicals at A$122m.

Overseas demand lifts Sony 30.4%

By Stefan Wagstyl in Tokyo

SONY, the Japanese consumer electronics company, yesterday reported a 30.4 per cent increase in consolidated interim pre-tax profits to Y88.7bn ($614.1m), due to strong demand in all its divisions, particularly in overseas markets.

Sales for the six months to the end of September rose 23.8 per cent to Y1,228bn.

A strong performance in Europe, where sales were up 30.3 per cent, and to the US (up 26.5 per cent) offset a more modest 16 per cent increase in domestic sales.

The biggest gains were recorded by the "other products" division, which includes Sony's floppy disk drives, where sales increased 28.1 per cent to Y191bn.

Video equipment sales rose 23.3 per cent to Y327.8bn, and audio equipment by 25.8 per cent to Y323bn. Records, mainly produced by CBS Records, were up 18.8 per cent at Y193bn.

Operating profits were 55.4 per cent higher at Y114bn. The increase at the pre-tax level was lower because of bigger foreign exchange losses and financial expenses, including the cost of a share issue.

A sharp increase in income from consolidated companies, including overseas subsidiaries, boosted the net figure to Y49.1bn, an increase of 68.1 per cent.

Earnings per share were 53.2 per cent higher at Y151.2. Sony increased its interim payout 12 per cent to Y25.

The results do not include any contribution from Columbia Pictures Entertainment, the film and television studio which Sony has bought in a $3.4bn deal completed early this month.

Sony said its operating environment was difficult to forecast in view of the uncertainty in the US economy and in exchange rates as well as intensifying price competition.

The Sony parent company, which mainly covers operations in Japan, including exports, reported a 22.2 per cent increase in sales to Y720bn and 32.8 per cent increase to pre-tax profits to Y41.5bn.

For the full year, the parent company forecasts sales of Y1,450bn, up 15 per cent, and pre-tax profits of Y95bn, ahead 23 per cent.

Fletcher Challenge to reduce dividend

By Terry Hall in Wellington

FLETCHER CHALLENGE, New Zealand's international forestry, construction and pastoral group, should earn a similar profit to last year's record NZ$653m (US$385.1m) so long as it makes no asset sales or major acquisitions in the current year, Sir Ron Trotter, chairman, said yesterday.

The company also expects to pay a reduced dividend and as a result of the flat earnings there would be a decline in earnings per share, he told about 2,500 shareholders at the annual meeting.

Net earnings per share rose 6.9 per cent last year, from 59.4 cents to 63.5 cents. The forecast on reduced earnings per share is the first negative one Sir Ron has made since the company was formed in 1982.

Sir Ron said making a forecast this year was more difficult than usual as the world was waiting for the economic impact of recent developments in eastern Europe and China and the slowing of growth in the US, UK and Australia.

In addition, increases in supply of some of Fletcher's key products make the price outlook uncertain.

Sir Ron, however, was optimistic about the future and said there was no doubt the New Zealand economy was recovering. "The outlook for the farm sector was better than for many years," he said.

The rural bank bought some months ago would be a sound profitable investment, returning about NZ$70m, net of the financing costs.

Lower prices for newsprint and methanol would have a significant effect on earnings and the ongoing waterfront dispute would have an impact on earnings in the first half.

Production of market kraft pulp at the mills in Kawerau and Crofton in Canada was down because of the expansion programmes during the year. Fletcher Challenge had strengthened its base geographically and by product line, he said.

Mr Hugh Fletcher, chief executive, said the company wanted to buy enough crown forest lands in the forthcoming round of sales to supply the Tasman pulp and paper mill. The estimated cost of the forests would be about NZ$500m.

Sir Ron said overseas equity ownership of Fletcher Challenge was increasing with about 25 per cent of the company now owned offshore. The company would continue to encourage that process.

Sir Ron decides to stay on at IEL

SIR RON Brierley, the New Zealand financier who founded Industrial Equity, the Australian investment concern, has decided to stay a director of the company, although control fell to a rival entrepreneur last week, AP-DJ reports. Sir Ron is to be replaced as IEL chairman by Mr John Spalvins, managing director of Adelaide Steamship, which last week acquired 51 per cent of IEL in a takeover offer.

Pickens call for bigger payout rejected

By Stefan Wagstyl

KOITO Manufacturing, the Japanese car lights company in which Mr T. Boone Pickens, the Texan corporate raider, has taken a stake, yesterday rejected his demand for a dividend increase.

Koito, announcing its parent company results for the six months to the end of September, said the interim payout would be unchanged at Y4.

Boone, an investment company headed by Mr Pickens, had asked for an increase to Y7, which would be paid out of a windfall profit Koito made during the year from a stock market transaction.

The Y1.1bn ($7.6m) profit came from Azabu Motor, a company headed by Mr Kitaro Watanabe, a Japanese stock market investor. Azabu was forced to pay to Koito profits it had made from dealing in Koito shares, because it had broken Japanese securities trading.

Azabu subsequently sold substantial stakes to Boone, which holds 26 per cent of Koito. Koito posted a slight increases in six-month sales and pre-tax profits to Y57.6bn from Y53.5bn and Y2.77bn from Y2.73bn respectively.

Bank funds keep Qintex operating

NEWLY appointed receivers and managers at Qintex Australia have obtained bank funding to allow the television and resorts group to continue operating while the best prices are sought for its assets.

The Victorian Supreme Court placed Qintex Australia and 27 associated companies in voluntary receivership yesterday, after a group of ten banks agreed not to oppose the move.

Mr Christopher Skase, the entrepreneur who built up the Qintex empire, had sought a court-appointed receiver because some of the banks looked like appointing receivers themselves, which would have posed problems.

Mr Skase's action had the effect of protecting the interests of all creditors and shareholders, including himself. However, it also marked the end of his meteoric business career, which began in the mid-1970s after stockbroking and financial journalism.

The court made Mr David Crawford and Mr John Allpass, of the accounting firm Peat Marwick Hungerford, receivers and managers for six months, and gave them powers to run the companies – including the right to hire and fire staff, sell assets and borrow funds.

The decision allows the Qintex group to continue trading and broadcasting – without simultaneously raising the awkward question of whether the group's television licences had been rendered invalid or changed ownership.

Mr Crawford said yesterday Mr Skase would retain an advisory role, as he "intimately knows the group and I believe it will be essential to call upon his experience and expertise to assist in the administration."

On the group's future, Mr Crawford said a "significant asset disposal programme" had to be implemented. But he insisted there would be no "fire" [forced] sales and funding had been arranged to carry the group well into next year.

Qintex's principal assets are the Channel Seven commercial television network and the Mirage luxury resorts – two in Queensland, a third to preparation in Hawaii and a property to California.

Mr Skase has said he would sell his 51 per cent controlling interest in the resorts to help meet his cash-flow problems. Two Japanese investors – Mitsui and Nippon Shinpan – hold the remaining 49 per cent, and are thought to have pre-emptive rights over the rest.

Dr Tony O'Reilly, the Irish head of Heinz in the US, who already owns a chain of provincial newspapers to Australia, and Mr Kerry Stokes, the West Australian entrepreneur are reported to be interested in the television network.

Qintex's Adelaide television station and its two Queensland regional stations are already on the market, but Mr Skase hoped to hang on to the larger metropolitan stations. Mr Crawford insisted yesterday he had "no preconceived ideas" about whether some or all Qintex assets would be sold off.

He faces a difficult local climate in making his sales. The recent disposal of the Channel Ten network has seen the market value of television stations plummet, while Australia's tourism prospects, though attractive, have weakened in the wake of the 1988 bicentenary celebrations and the domestic pilots' dispute.

Chris Sherwell on moves to salvage something from the wreckage of the Qintex empire and the end of the meteoric business career of Christopher Skase, the entrepreneur

His immediate aim is to keep the business going. He gained intimate knowledge of the Qintex group's complicated finances through the investigation he conducted earlier this month on behalf of the banks, which include the Hongkong Bank, Chase AMP, Barclays, the Commonwealth Bank, Société Générale and Long Term Credit Bank of Japan.

Despite the group's estimated A$1.5bn ($1.17bn) in debt and its A$250m cash-flow shortfall, Mr Crawford is said to have preferred the option of a debt moratorium over receivership or provisional liquidation. But two of the banks – said by Qintex to be Barclays and the Commonwealth Bank – refused, and documentation was impossible to prepare in time.

Complicating the position further was Mr Skase's surprise revelation that, since August 1988, some A$42m had been paid in management fees and expenses to a company controlled by himself and his senior executives. He said the practice had gone on for 14 years.

Under pressure from the National Companies and Securities Commission, Australia's share market watchdog, Mr Skase agreed last week to allow shareholders a chance to approve the payments at a meeting. That is still expected to go ahead, and it is an open question whether the sums will have to repaid.

In a related development yesterday, the Australian Stock Exchange demanded a response from Qintex to its repeated requests for information about the status of the group in order to ensure an informed market.

The exchange, irritated by the failure to give detailed responses, last month suspended from trading both Qintex Australia and its parent company Qintex Ltd. Last night it received formal notification of the receivership.

INTERNATIONAL CAPITAL MARKETS

Borrowers switch out of dollars into other sectors

By Andrew Freeman

CONSOLIDATION was evident on Euromarkets yesterday. Traders expressed relief that expected heavy supply in the dollar sector was failing to materialise as borrowers moved into other sectors.

Secondary market activity was light, with prices broadly unchanged at the close of London trading. Dealers said there had been some buying for value and cited the recent Alberta and GMAC issues as deals attracting demand. Merrill Lynch was quoting the GMAC paper at 99.52 bid, implying a spread of 88 basis points over Treasuries, and syndicate members said they were making steady sales.

The first convertible issue for a Taiwanese borrower was launched by Bankers Trust to an excellent reception. The $100m 10-year deal for Yuen Foong Yu Paper Manufacturing was trading at 113 bid according to Bankers Trust, while elsewhere it was quoted as high as 114½ bid, way over a par issue price.

European investment funds with a Far Eastern flavour were the source of heavy demand and the paper was placed very quickly.

Among other new issues, Credit Suisse First Boston (CSFB) brought a $400m floating-rate note issue for the Kingdom of Belgium. The notes offered a yield of Libid flat, which at less a 10 basis point selling concession was around 8¼ per cent.

CSFB said this was slightly tight against secondary market issues by Belgium, but added

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that approximately 60 per cent of the issue had been preplaced.

Demand was steady from large institutional fund managers, with central banks thought to have underpinned the issue. Belgium was thought to be looking for funds swapped into several currencies including Swiss francs and D-Marks.

Nikko was the lead manager of a $750m deal with equity warrants for Toyo Menka Kaisha. The bonds were trading at 106 bid, a fine premium to the par issue price. Nomura's deal for Nippon Metal was trading at 107 bid after a fine reception.

Daiwa brought a Y30bn five-year deal for Credit Local. The bonds were trading on full fees at less 1⅞ bid and traders said they anticipated good demand in Tokyo. Proceeds were swapped into floating-rate US dollars.

In Germany, Daiwa launched its first deal as a lead manager, bringing a DM50m equity warrant deal for Kyokuto Boeki Kaisha, a Japanese trading company. After a slow start, the bonds improved to trade at 99⅞ bid, comfortably inside fees but just below their par issue price.

In Switzerland, UBS was active, bringing two new issues. A SFr45m convertible private placement for Wako Electric had a good reception and was quoted at 104⅞ bid, against a par issue price.

A SFr100m 10-year straight issue for KfW International Finance (US) carried a 6¼ per cent coupon and was priced at 101⅛. UBS was quoting the paper around fees at less 2⅛ bid to yield roughly 6.28 per cent. Proceeds were swapped into US dollars.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
US DOLLARS						
Toyo Menka Kaisha♦	750	(3⅝)	100	1993	2¼/1½	Nikko Secs. (Europe)
Belgium, Kingdom of(d)‡♦	400	(d)	100.10	1999	10bp	CSFB
Yuen Foong Yu Paper Mnf(e)§♦	100	2	100	1999	2½/1½	Bankers Trust Int.
Nippon Metal Industry♦	100	(3¾)	100	1993	2¼/1½	Nomura Int.
SWISS FRANCS						
KFW International Fin.(a)♦	100	6¼	101¼	2000	n/a	UBS
Wako Electric Co.(b)♦§	45	½	100	1994	n/a	UBS
D-MARKS						
Kyokuto Boeki Kaisha(c)♦	50	(1¾)	100	1994	2¼/1½	Daiwa Europe (Germany)
YEN						
Credit Local de France(a)♦	30bn	6¼	101⅛	1994	1⅞/1¼	Daiwa Europe
Bastion Holding A/S(a)♦	5bn	6⅞	101⅜	1993	1⅝/¾	Nomura Int.
IRISH PUNTS						
EIB(f)♦	40	9¼	99.81	1998	n/a	Riada/Ulster Bank Group

‡Private placement. ♦With equity warrants. ♦Final terms. §Convertible. ‡Floating rate notes. a) Non-callable. b) Yield to put 3.414%. c) Each DM5,000 has 5 warrants attached. d) 6-month Libid flat. Call at par after 5 years. e) Conversion price T$26.82. No conversion until Dec.1991. Put at 122.85 after 5 years. Forex T$26.05 per $. f) Fungible from Dec.1 with existing I£25m bond launched Dec.1988. Non-callable.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on November 21

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Average price change... On day -0¼ on week -0¼						

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Average price change... On day 0 on week -0¼						

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Average price change... On day 0 on week -0¼						

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Average price change... On day -0¼ on week -0¼						

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Average price change... On day -0¼ on week -0¼						

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn	C.yld
Average price change... On day -0.02 on week -0.03						

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Mitsubishi Corpora 2¼ 94DM	2/86	3004.	105¼	106¼	0	8.53
MCA Inc 5¼ 02 US	9/87	69.62	104¼	105½	-0¼	9.93
Mitsubishi Bk. 3¼ 04US	5/89	3264.	91¾	92¾	+0¼	4.98
Nat. Pic 5¼ 03 £	11/87	4.3	95	96	0	332.26
Nissh Bnpp.Bk.2⅝ 03 US	4/88	804.	130¼	131¾	+0½	0.60
Omnicom Inc. 6 1/2% 04 US	10/89	28.	102¾	103¾	-0¼	17.57
Onoda Cement 2⅝ 02 US	4/87	1318.	281	282	+8	2.80
Ranks Hovis 4¾ 05 £	1/88	3.5	120	121	-0¼	-0.76
Rutland 7¼ 02 £	1/87	5.4	97¾	98¾	-1¼	1.90
Saatchi&Saatchi.6¾ 03 £	10/89	4.41	91¾	92¾	-0¼	32.52
Silicon Graphics 8 04 US	6/89	29.18	114¼	115¼	-2½	11.07
Sumitomo Bank 3¾ 04 US	2/89	3097.	81½	82½	-0½	5.89
Texas Inst. 2¾ 02 US	9/87	62.87	75¾	76¾	-0¼	113.86
Utd.N'papers 8 04 £	10/89	8.77	109¼	110¼	-0¼	107.08
W.R. Grace 6¼ 02 US	9/87	42.12	89	90	-1	33.46

* No information available-previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (‡three-month; §above mean rate) for US dollars. C.cpn = The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv date = First date of conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Saudi plans secondary bond market

By Victor Mallet and Andrew Gowers in Riyadh

SAUDI ARABIA is pressing ahead with plans to develop a secondary bond market to make room for further domestic borrowing needed to cover the Kingdom's chronic budget deficit, according to the central bank and Saudi commercial banks.

After two years of bond issues, the commercial banks are increasingly reluctant to absorb any more because they fear a growing mismatch of maturities. Their customers generally make short-term deposits, while the bonds have maturities of between two and five years.

State institutions such as the Civil Service Pension Fund and the General Organisation for Social Insurance, which have taken up more than two-thirds of the bonds until now because of poor demand from banks, are also thought to be close to capacity. The authorities are therefore increasingly anxious to foster a market that would enable members of the public to purchase bonds.

Yesterday Sheikh Hamad al-Sayari, the governor of the Saudi Arabian Monetary Agency (Sama, the central bank), said efforts were being made to develop the secondary market. "We are all new to this – us, the banks and the markets and it's taking longer than we originally thought," he said.

Although no detailed figures are available, Mr al-Sayari said that Sama expected to raise the SR25bn ($6.64bn) in bonds required to cover this year's projected deficit. Every two weeks Sama offers SR1.5bn in bonds, but not all of this amount is regularly purchased.

At present the secondary market is rudimentary, but Sama hopes to improve it in the months ahead, partly by using an electronic screen-based trading system which will also be used for equities. Mr al-Sayari said the secondary market could be made more liquid by reducing the SR1m minimum purchase and by having the banks market mutual funds.

"There is an active programme for the automation of bank operations and interbank communication," Mr al-Sayari said. "That is going to be helpful in settlements and transactions of the secondary market." He expects the new system to be up and running in the first half of next year.

In continuing negotiations with Sama, the leading commercial banks have suggested a number of changes to develop the bond market. These include disclosure of the amount of bonds sold by Sama, financial incentives for absorbing primary issues and larger repurchase facilities for market-makers. At the moment Sama will buy back 10 per cent of a bank's holdings.

The development of the secondary market is regarded as essential by Sama because its bond issues will continue for as long as there are Saudi budget deficits. In addition Sama can use the bonds as an instrument of monetary policy.

Earlier this year, another state institution – the Public Investment Fund – borrowed $660m from a syndicate led by local banks in what was seen as a supplementary, albeit indirect, move to finance government spending. This was Saudi Arabia's first borrowing in foreign currency for 30 years.

However, Mr al-Sayari said there were no plans for foreign borrowing as such in the immediate future. He predicted that real growth in gross domestic product this year would be similar to last year's 3.2 per cent, with non-oil growth making a contribution.

"The various indicators all point to a good rate of growth," he said. "The credit demand, non-oil exports, companies' profits and prices on the stock market – all of these are good signs." Latest figures showed that commercial bank lending to the private sector was 5 per cent up on last year, he said.

CME will trade options on 'diffs'

THE COMMODITY Futures Trading Commission gave the go-ahead yesterday for the Chicago Mercantile Exchange to trade options on its Eurorate differential futures contracts, writes Deborah Hargreaves.

The futures body approved the start-up of three options on "diffs," as the futures contracts are known. The CME currently trades three diffs – yen, D-Mark and sterling – with the contracts based on the interest rate differential between Eurodollars and the respective Eurocurrency.

The CME's diffs, which were developed at the request of several leading banks, have been slow to take off.

INTERNATIONAL CAPITAL MARKETS

Regulatory pressures and the Brady plan

Stephany Griffith-Jones and **Roy Culpeper** on the outlook for the US's debt initiative

An important potential problem with the Brady Plan is that banks are expected to participate voluntarily in debt-reduction or new money arrangements. Ultimately, it may prove difficult or even impossible to persuade a sufficient number of banks voluntarily to reduce their aggregate claims on particular debtor countries to levels that are sustainable – that is, fully serviceable without compromising growth objectives. Regulatory and tax measures can play an important role in encouraging banks to participate in Brady-type debt arrangements.

The US Treasury Secretary, Mr Nicholas Brady, stressed when launching his plan that "creditor governments should consider how to reduce regulatory, accounting or tax impediments to debt reduction where these exist."

From recent statements by senior US officials, such as Mr Gerald Corrigan, president of the Federal Reserve Bank of New York, and Mr Edwin Clock, Deputy Comptroller of the Currency, it seems the US monetary and regulatory authorities are willing to be quite flexible in interpreting supervisory and tax regulations, so as to aid the implementation of the Brady initiative. It has been reported that other banking authorities – particularly in Europe – are far less willing to be flexible.

Our discussions with regulators in different countries have led us to conclude that it may be unrealistic to recommend that bank regulators and central banking authorities achieve far greater uniformity in their regulatory and tax treatment of developing country debt, since national banking systems are so divergent. However, they should agree a common cause of action, to accommodate their existing regulations to achieve the objectives of the Brady Plan.

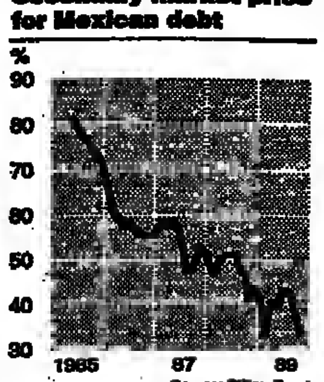
The main common regulatory feature in Europe and Canada (as opposed to the US) has been the far more favourable attitude of the authorities on encouraging banks to make loan loss provisions, particularly through the tax deductibility of such provisions.

This has had the desired effect of strengthening all the banks in those countries, against particular or real losses on Third World debt, and has also provided the potential cushion for those banks to agree debt or debt service reduction, without their solvency being threatened.

However, the fact that full tax incentives are already provided at the time of provisioning implies there is no tax incentive to accept debt or debt service reduction. Thus, existing tax provisions in Western Europe and Canada encourage provisioning, but discourage debt or debt service reduction.

It would seem desirable to design a tax policy so as to

Secondary market price for Mexican debt



ensure that sufficient (but not excessive) levels of provisions are maintained; however, when a certain level of debt or debt service reduction is agreed between a country and the International Monetary Fund/World Bank, banks can maintain their tax concessions only if they participate in the debt or debt service reduction exercise (or in equivalent contributions). This discourages "free riding" by reluctant banks and implies no additional cost to the taxpayers; indeed, it may even imply more tax income!

If such a line were to be taken by European and Canadian tax authorities, it would be particularly valuable if the position was made clear and public, to provide signals to banks. Lack of knowledge and clarity about future reactions of tax authorities to changes in debt management policies often inhibits the search for innovative solutions, particularly in some European countries.

Provisioning policy itself can also be used to steer banks towards a particular line or course of action. For example, some European countries require banks to provision against trade credits to problem debtors, even though these credits are being serviced; it would seem desirable for no provisions to be required against trade credits, unless there are problems with their servicing.

Trade credit is an essential lubricant for international trade and its effective functioning should be isolated as much as possible from the international debt problem.

Furthermore, minimum provisioning levels required could be different for banks that enter into Brady-type deals and those that do not, with lower provisions required from participating banks.

In countries – or for banks – with very high levels of provisions, the regulatory authorities could allow more favourable provisioning status to debt instruments emerging from Brady Plan negotiations.

A different regime might be required for the US, where many banks still have fairly low provisions. US Representative Mr Walter Fauntroy has recently proposed legislation that would require – in the case of the US – particularly high provisioning from banks not participating in Brady-type debt or debt-service reduction.

Representative Fauntroy's bill is also interesting in that – if approved – it would require US financial authorities to seek co-operation from other governments in providing appropriate incentives to encourage banks in their countries to enter into IMF/World Bank-supported debt reduction agreements.

The precise details of appropriate schemes for particular creditor countries need to be designed by countries' regulatory authorities; however, it is important that not only regulatory objectives (of banking stability) are taken into account, important as these are.

The broader objectives of the new debt management strategy for middle-income countries, reflected in the recent initiatives by the US, the Japanese and the French governments, need to be backed by regulatory actions.

If negotiations are an obstacle to innovative desirable solutions to the debt overhang, they should be changed to suit current needs and agreed objectives.

Dr Stephany Griffith-Jones is a Fellow at the Institute of Development Studies, Sussex University, Brighton, England. Dr Roy Culpeper is a Fellow at the North-South Institute in Ottawa, Canada.

Treasuries move narrowly ahead of Thanksgiving

By **Janet Bush** in New York and **Deborah Hargreaves** in London

US TREASURY bonds were narrowly mixed in quiet trading at yesterday's midsession after news that consumer prices rose by 0.5 per cent in October.

The benchmark long bond was quoted ⅛ point lower at

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midsession while medium-dated maturities were quoted around ⅛ point higher.

The gain of 0.5 per cent in the CPI was in line with expectations, but the 0.5 per cent rise in the index – excluding food and energy – was somewhat disappointing. The bond market had been looking for a rise of 0.3 per cent, taking out food and energy.

The latest monthly gain in the CPI means that the index has risen at an annual rate of 4.6 per cent so far this calendar year, still historically high despite the weakening in the economy this year. Bond economists also noted that, unlike in previous months when food and energy tended to boost the index, price gains in October's report were broadly distributed.

Despite the fact that yesterday's release is rather worrying for the bond market, the reaction to the figures was muted, with many traders unwilling to take new positions prior to the Thanksgiving Holiday tomorrow, when markets are closed, and Friday, when few people come back to work.

The bond market was kept on the defensive yesterday by a softer dollar, particularly pronounced against the D-Mark which has been seeing heavy demand recently. At midsession, the dollar was quoted at DM1.8180 compared with an earlier New York high of DM1.8385.

Fed funds continued to trade between 8⅝ per cent and 8½ per cent.

■ THE UK gilts market enjoyed a softly undulating day yesterday as a period of consolidation followed Monday's squeeze. Gilt prices were slightly erratic as pressure continued on sterling, but there was not enough activity in the market to create any severe choppiness.

The bond market held its own as sterling fell through a key support level against the D-Mark to trade below DM2.85 at its lowest level since March 1987, in spite of intervention by the Bank of England. The Bank of England's sterling index closed at 87.2 after being pushed down on Monday to close at 87.5.

Although bonds lost a few ticks around midday, a small wave of cheap buying later in the day was enough to support the market. The Treasury's benchmark 11¾ per cent bond closed ¼ point firmer at 109⅞.

Some of the buying yesterday afternoon was led by the futures market, where some 12,500 lots changed hands.

"There is a continued nervous undertone to the market in advance of Thursday's trade figures," explained Mr Chris Antony at UBS Phillips & Drew. "No one wants to get caught with short positions."

■ IT WAS another thin day of trading for the West German bond market where bunds fell slightly at the open of the market but soon recovered. A firmer bund futures market pulled the cash behind it yesterday morning to leave bunds trading at levels almost unchanged from Monday's close.

The Government's 7¼ per cent 1999 bund was unchanged at 97.90 with a yield of 7.43 per cent. Although the German bond market is offering its highest yields for four years, investors' concerns about future inflation have been enough to keep the market bearish. The market was quiet ahead of today's holiday.

BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS	13.500	9/92	103-29	+6/32	11.82	11.51	11.56
	9.750	1/98	94-11	+2/32	10.81	10.65	10.63
	9.000	10/08	92-22	+8/32	[illegible]	9.72	9.65
US TREASURY *	8.000	8/99	100-05	+3/32	7.90	7.89	7.92
	8.125	8/19	102-12	+2/32	7.91	7.87	7.94
JAPAN No 111	4.600	6/98	94.4231	-0.109	5.56	5.55	5.33
No 2	5.700	3/07	101.3252	-	5.55	5.54	5.21
GERMANY	8.750	8/99	95.5000	+0.250	7.42	7.44	7.01
FRANCE BTAN	8.000	7/94	93.7060	+0.020	9.72	9.52	9.24
OAT	8.125	5/99	93.7000	-0.050	9.13	8.96	8.79
CANADA *	9.500	10/99	99.5500	-0.525	9.57	9.41	9.46
NETHERLANDS	7.250	7/99	96.0400	+0.090	7.84	7.76	7.41
AUSTRALIA	12.000	7/99	92.7020	-0.303	13.36	13.29	13.70

London closing, *denotes New York morning session
Yields: Local market standard — Prices: US, UK in 32nds., others in decimal

Technical Data/ATLAS Price Sources

VW takes DM1bn credit through Deutsche Bank

VOLKSWAGEN is establishing a DM1bn seven-year, multi-currency revolving credit facility through a Deutsche Bank subsidiary, Reuter reports from Frankfurt.

Giuseppe Savoini, VW's capital markets director, said VW had not earmarked the credit for specific projects, but would use it as a back-up.

VW obtained a similar $1.5bn facility, the largest of its kind for a German company, from a group of international banks led by J.P. Morgan this year. Mr Savoini said the new facility is being syndicated mainly among West German banks.

Deutsche Bank Luxembourg arranged the facility, which carries terms in line with the earlier deal. It carries a commitment fee of 5 basis points and an interest margin of ⅛ percentage point if less than half the funds are drawn, ¼ point if more than half is used.

A Deutsche official said the bank was talking to several other big West German companies about such credits.

● Matsushita Electric Works of Japan has established a $300m Eurocommercial paper programme for a Netherlands subsidiary, Yamaichi International (Europe) said yesterday.

Bacot-Allain sets up arm

BACOT-ALLAIN-FARRA, the French stockbroking affiliate of the UK's S. G. Warburg group, has set up a subsidiary to deal in French government securities, writes George Graham.

The new company, S. G. Warburg Bacot-Allain SA, will have a starting capital of FFr150m and will enable the group to start trading as a corresponding primary dealer in French government bonds.

Bacot-Allain was named a corresponding dealer in May, subject to setting up a separate subsidiary. It has already been an active trader in the government bond market.

Rhône-Poulenc issue priced at FFr465

By **Stephen Fidler**, Euromarkets Correspondent

AN international issue of participating shares with warrants for the French state drugs and chemicals group, Rhône-Poulenc, was priced yesterday by Shearson Lehman Hutton, the arranger of the offering.

The 3½m units, of one share and three-year warrants enough to buy a further share, were priced at FFr465 ($74) each, yielding the company $260m to help finance the takeover of two speciality chemicals businesses. The warrants will be exercisable at FFr535 each, a 15 per cent premium.

A small fixed annual payment gives the non-voting securities the tax advantages of participating shares for the issuer, but most of the payment is related to company profits.

The shares were priced at a slight discount to the previously issued non-voting shares, which the company has issued up to its 25 per cent limit, and which closed on Monday night at around FFr469 apiece. The new units were bid late yesterday at FFr465. Shearson, Merrill Lynch and Société Générale were underwriters.

Tokyo postpones special members plan

THE TOKYO Stock Exchange (TSE) has postponed indefinitely discussion of a plan to introduce special memberships and will accelerate the approval process for new regular members, Mr Minoru Nagaoka, exchange chairman, told a news conference in Tokyo, Reuter reports.

"The new system should be considered separately from discussion of individual applications for regular membership, which should be decided first," he said. "We want to reach some concrete decisions on deciding new regular members by the end of this year.

"At the latest, final decisions will be made by next spring," Mr Nagaoka said.

● Malaysia's Projek Lebuhraya Utara-Selatan has signed a 2.54bn ringgit syndicated loan to finance the construction of a 900km North-South highway.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS — Figures in parentheses show number of stocks per section

		Tuesday November 21 1989 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%))	Est. P/E Ratio (Net)	xd adj. 1989 to date	Mon Nov 20 Index No.	Fri Nov 17 Index No.	Thu Nov 16 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (205)	862.96	-0.4	10.26	4.09	11.34	28.51	865.68	874.07	872.38	815.46
2	Building Materials (28)	1018.26	-0.4	15.63	5.52	7.98	35.83	1042.32	1053.78	1045.88	1018.43
3	Contracting, Construction (37)	1578.11	-1.2	17.99	5.61	7.29	56.04	1395.36	1396.86	1391.54	1557.60
4	Electricals (10)	2426.03	-0.5	11.25	5.13	11.17	83.50	2437.35	2495.50	2502.90	2426.81
5	Electronics (30)	1877.59	-0.2	9.81	3.89	13.13	51.87	1873.82	1923.46	1923.70	1789.94
6	Mechanical Engineering (53)	447.94	-0.8	12.51	5.06	9.72	14.98	451.65	461.68	461.63	429.84
8	Metals and Metal Forming (6)	454.90	-0.2	25.90	6.58	4.35	16.13	455.85	460.17	459.96	587.44
9	Motors (17)	349.82	-0.6	11.47	4.99	10.22	11.79	351.87	356.62	356.65	279.27
10	Other Industrial Materials (24)	1582.49	-0.4	10.48	4.75	11.26	54.07	1588.38	1613.27	1599.62	1352.81
21	CONSUMER GROUP (185)	1233.11	+0.1	8.94	3.62	14.06	29.55	1232.09	1252.74	1248.97	1065.14
22	Brewers and Distillers (23)	1392.29	+0.4	9.40	3.54	13.32	28.12	1386.48	1401.98	1401.54	1149.47
25	Food Manufacturing (20)	1084.45	-0.6	9.47	4.02	13.33	25.81	1090.73	1102.85	1094.47	957.45
26	Food Retailing (15)	2223.96	-0.5	9.43	3.20	14.01	44.99	2236.11	2300.03	2289.93	1857.63
27	Health and Household (14)	2496.39	+0.5	6.31	1.97	18.88	41.91	2484.43	2520.93	2512.83	1845.35
29	Leisure (35)	1552.60	-0.2	8.40	3.73	14.64	41.11	1556.25	1588.91	1570.49	1420.93
31	Packaging & Paper (14)	532.24	+1.6	12.35	5.42	10.15	17.67	523.92	530.85	529.54	547.99
32	Publishing & Printing (18)	3581.51	+0.1	8.73	4.90	14.81	118.29	3577.69	3614.66	3614.16	3448.80
34	Stores (32)	749.74	+0.3	11.44	4.94	11.39	24.22	747.12	766.56	770.17	733.02
35	Textiles (14)	498.77	-0.6	11.45	5.89	10.59	18.11	502.02	507.36	506.88	502.63
40	OTHER GROUPS (95)	1107.55	—	10.76	4.69	11.28	27.02	1107.15	1122.77	1116.76	905.02
41	Agencies (17)	1492.26	+0.1	7.07	2.44	17.44	26.28	1490.62	1494.85	1481.84	1060.71
42	Chemicals (22)	1168.65	+0.2	12.99	5.47	9.05	43.57	1166.25	1176.92	1172.60	1041.98
43	Conglomerates (14)	1573.12	-0.8	10.86	5.45	10.87	36.25	1585.07	1615.09	1600.80	1249.91
45	Transport (13)	2103.29	-1.0	11.16	4.49	11.47	57.65	2124.37	2133.17	2113.05	1932.70
47	Telephone Networks (2)	1098.10	+0.6	11.42	4.65	11.42	22.38	1091.24	1112.91	1105.13	909.24
48	Miscellaneous (27)	1839.55	+0.4	9.37	4.46	12.05	45.43	1832.00	1862.33	1865.58	1219.22
49	INDUSTRIAL GROUP (485)	1112.34	-0.1	10.54	4.27	11.71	29.60	1113.94	1131.74	1127.54	971.42
51	Oil & Gas (15)	2165.86	+0.3	10.00	5.29	13.22	96.40	2159.57	2175.12	2156.20	1725.25
59	500 SHARE INDEX (500)	1200.60	-0.1	10.46	4.41	11.90	35.10	1201.67	1219.39	1214.02	1035.68
61	FINANCIAL GROUP (121)	772.11	+0.3	—	5.45	—	28.61	769.66	784.79	779.22	690.01
62	Banks (9)	798.00	+0.1	21.61	6.26	6.00	35.17	797.46	819.61	804.87	678.31
65	Insurance (Life) (8)	1271.87	+0.7	—	5.23	—	47.56	1262.71	1290.09	1288.74	952.01
66	Insurance (Composite) (7)	639.85	+0.7	—	5.91	—	28.34	635.55	647.41	646.98	515.50
67	Insurance (Brokers) (7)	1067.10	-0.1	7.06	5.09	18.05	45.26	1068.39	1081.13	1073.02	894.49
68	Merchant Banks (11)	421.36	-0.1	—	4.03	—	9.78	421.69	427.22	423.67	335.78
69	Property (49)	1159.80	+0.5	7.81	3.63	16.18	23.34	1154.37	1166.85	1170.45	1269.50
70	Other Financial (30)	320.48	+0.1	12.74	6.69	10.29	14.48	320.23	322.99	321.89	360.86
71	Investment Trusts (69)	1211.36	+0.4	—	2.87	—	22.73	1206.80	1211.17	1208.61	929.77
81	Mining Finance (1)	673.64	-0.6	11.08	4.80	10.14	22.25	677.40	687.75	690.32	569.97
91	Overseas Traders (7)	1384.65	+0.7	9.98	5.84	11.40	54.79	1374.99	1385.95	1383.56	1387.70
99	ALL-SHARE INDEX (698)	1098.59	—	—	4.53	—	33.23	1098.62	1115.15	1110.00	958.37

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Nov 20	Nov 17	Nov 16	Nov 15	Nov 14	Year ago
FT-SE 100 SHARE INDEX♦	2185.1	+2.0	2185.1	2171.0	2183.1	2221.4	2209.8	2203.4	2214.7	1821.3

FIXED INTEREST

	PRICE INDICES	Tue Nov 21	Day's change %	Mon Nov 20	xd adj. today	xd adj. 1989 to date
	British Government					
1	Up to 5 years	116.57	+0.02	116.55	—	10.50
2	5-15 years	129.53	+0.07	129.44	—	11.60
3	Over 15 years	137.79	+0.21	137.50	—	12.71
4	Irredeemables	155.31	+0.04	155.25	—	13.42
5	All stocks	127.70	+0.07	127.61	—	11.52
	Index-Linked					
6	Up to 5 years	139.98	+0.14	139.78	—	2.79
7	Over 5 years	138.07	+0.13	137.89	—	3.21
8	All stocks	138.09	+0.13	137.91	—	3.15
9	Debentures & Loans	106.42	-0.20	106.64	—	9.39
10	Preference	85.11	-0.23	85.31	—	5.26

	AVERAGE GROSS REDEMPTION YIELDS		Tue Nov 21	Mon Nov 20	Year ago (approx.)
	British Government				
1	Low	5 years	10.11	10.11	9.90
2	Coupons	15 years	9.81	9.82	9.35
3		25 years	9.74	9.75	8.96
4	Medium	5 years	11.27	11.25	10.28
5	Coupons	15 years	10.18	10.21	9.58
6		25 years	9.84	9.86	9.21
7	High	5 years	11.30	11.37	10.42
8	Coupons	15 years	10.39	10.41	9.70
9		25 years	9.97	10.00	9.22
10	Irredeemables	†	9.81	9.82	8.84
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	3.72	3.76	3.37
12	Inflation rate 5%	Over 5 yrs.	3.68	3.69	3.72
13	Inflation rate 10%	Up to 5yrs.	2.82	2.86	2.15
14	Inflation rate 10%	Over 5 yrs.	3.50	3.51	3.54
15	Debs &	5 years	12.59	12.59	11.30
16	Loans	15 years	12.12	12.09	11.04
17		25 years	12.12	12.09	10.78
18	Preference	†	10.78	10.75	10.28

♦Opening index 2172.5; 10 am 2175.1; 11 am 2180.3; Noon 2175.0; 1 pm 2177.3; 2 pm 2177.4; 3 pm 2178.1; 3.30 pm 2176.8; 4 pm 2179.8
(a) 4.56pm (b) 9.15am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 34p.

RISES AND FALLS YESTERDAY

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price p	+ or -
30	Nil	—	7pm	¼pm	♦CCS Group	1¼pm	
5	Nil	—	¼pm	⅛pm	♦Clogau Gld. Mines A 1p	⅛pm	
15	Nil	—	2½pm	1½pm	♦HMGCO 10p	1½pm	[illegible]
95	Nil	—	67pm	65pm	Ingham (George) 10p	65pm	[illegible]
10	Nil	—	7pm	4pm	♦Option Group 10p	4pm	[illegible]
250	Nil	—	39pm	22pm	Psion	22pm	
23	F.P.	13/12	99	77	♦Ross Cons. Elects. 10p	99	
25	Nil	—	16pm	4pm	♦WB Industries	7pm	

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990-91. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ♥ Issued by tender. ♣ Offered to holders of ordinary shares as a "rights". § Introduction. ¶ Placing price. †† Reintroduction. ♦ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. ♠ Unlisted securities market. ♠ Official London listing. □ Including warrants entitlement. * Third Market.

TRADITIONAL OPTIONS

● First Dealings Nov 6
● Last Dealings Nov 17
● Last Declarations Feb 6
● For settlement Feb 19

For rate indications see end of London Share Service

Calls in London Utd., Vaal Reefs, Cluff Oil Warrants, Burmah, Tamaris, S.W. Wood, Rosehaugh, Aviva Pet., Waterford Glass, Blacks Leis., Premier Cons., Walter Lawrence, British & Comm.

LONDON TRADED OPTIONS

QUIET returned to the London Traded Options Market yesterday after Monday's brief burst of activity which pushed volume up by some 10,000 lots. Volume slowed back to a dismal 25,735 contracts yesterday divided evenly between puts and calls with 14,679 call options changing hands and 11,056 puts.

Activity in the FT-SE 100 index option was boosted by a large spread trade in the stock index futures contract which prompted index options to rally by midmorning. The FT-SE 100 index option traded 8,097 lots with 3,282 calls trading and 4,845 put options changing hands. The busiest series was the November 2,200 call option which traded 1,335 lots.

Some individual stock options were active with British Gas traded 1,399 contracts with 705 calls changing hands and 694 put options traded. Hanson traded 1,383 lots most of them calls which traded 1,330 with just 53 put options changing hands. British Steel was the third most active stock option and traded 1,332 contracts with 293 calls changing hands and 1,039 put options. The most active series was the January 120 put option which traded 516 contracts.

Ferranti traded 1,311 options with 1,036 call options changing hands and 275 puts. General Electric Company traded 912 lots with 516 call options changing hands and 396 puts.

Exchange open interest rose yesterday to 861,714 lots with FT-SE 100 option at 125,149 lots.

November 21 Total Contracts 25,735 Calls 14,679 Puts 11,056
FT-SE Index Calls 3282 Puts 4845
*Underlying security price. † Long dated expiry months.

UK COMPANY NEWS

Boost from increased passenger traffic and property activities

BAA advances 17.7% to £186m

By Ray Bashford

BAA, formerly British Airports Aotbority, bnosted pre-tax profits 17.7 per cent during the six months to September 30 aided by a rise in passenger traffic and an increased contribution from property.

Sir Norman Payne, the chairman, yesterday said that the pre-tax figure was £186m compared with £158m in the previnns cnrresponding period. Earnings per share advanced 23.6 per cent to 25.7p a share.

BAA, which was privatised two years ago and operates seveo UK airports including Heathrow and Gatwick, experienced a 4.1 per cent growth in tbe number of passengers using the airports to 39.9m.

"We have seen consistent growth in European scbeduled domestic and Irish Republic traffic and while North Atlantic business was sluggish other long-haul traffic was satisfactory," Mr Mike King, the managing director of the airports division said.

The company's commercial activities at airports through duty free stores and the leasing of commercial outlets rose by 17.7 per cent £139m. Duty free spending rose 13.6 per cent to £69.6m and other aircome rose by 22.2 per cent to £69.4m.

Sir Norman repeated that he does not believe the harmonisation of European taxatinn and the elimination of frontier controls will be achieved by the beginning of 1993.

About one-half of turnover from duty free income is derived from intra-EC traffic and harmonisation could have a sever effect on this aspect of the group's business. Revenne from charges to airlines forms 46 per cent of total income at £199m, down from 48 per cent at the same time last year.

Total group revenne advanced 18.7 per cent to £431m. Sir Norman said that the additional time passengers spent in airport lounges as a result of the record delays during the six months made only a small contribution to the growth in turnover.

The result was adversely affected by capital expenditure on security whicb was commenced in the wake of the Lockerbie disaster when a Pan Am 747 was blow op by a bomb. The company has recruited an additinnal 880 staff and plans to spend a further £10m to tighten security at all airports.

Tbe group's property operations, which have accelerated sbarply following the £222m acquisition of the Lynton group, made a £10m contribution to pre-tax profits on an £18m turnover compared with a £3m profit last year.

Lynton was acquired to principally develop land around its seven airports including residential, car parking and hotel ventures.

Property will be an increasingly important profit generator for BAA, particularly as the company begins to bear the brunt of the £400m Stanstead airport project.

The interim dividend is lifted by 28.6 per cent to 4.5p.

See Lex

Sir Norman Payne: European harmonisation unlikely by 1993

Hogg Robinson slides to £6.6m

By Ray Bashford

THE STORM that has engulfed the package travel business forced a slide in pre-tax profits at Hogg Robinson during the six months to September 30.

In spite of sound performances at its transport and financial services subsidiaries, profits fell from £9.5m to £6.6m.

Mr Brian Perry, chief executive, said that the business travel operations grew and secured the company's leadership in the area. However, the downturn in the package holiday market, caused by the rapid rise in interest rates, erased higher returns from the business market.

Overall pre-tax returns from the travel bnsiness fell to £3.3m (£5.8m) while turnover firmed to £29.7m (£27.6m).

The current half includes the weak winter months during whicb the impact of highar interest rates will intensify. Falling a strong improvement in conditions, the division is expected to return a loss for the full year.

The higher interest rates had a severely adverse effect on the company's estate agency operations during the second half of the company's last financial year, forcing it to dispose of a 60 per cent in the business to Sun Alliance in a deal worth £18m.The sale bolstered Hogg Robinson's cash reserves to £29m.

Following a £4.5m loss in the second half of last year, including a £2.1m deficit at real estate business, tbe gronp returned pre-tax profits of £5m.

The transport division lifted its contribution to group pre-tax profits by 24 per cent to £1.6m (£1.3m) with Continental Cargo, the trailer company, returning what Mr Perry described as an "excellent result." Turnover in transport operations rose to £5.9m (£4.8m).

The financial services division improved pre-tax profits to £940,000 (£810,000) with the group's personal insurance business making a strong first half contribution.

Directors have recommended a maintained 2p interim dividend. Earnings per share were 5.71p (8.59p).

Narborough Plants up to £359,000

Narborough Plantations lifted pre-tax profits from £306,000 to £359,000 in the year to June 30.

Turnover for the period rose from £419,000 to £524,000; after tax of £92,000 (£74,000) earnings per 10p ordinary share were 1.99p (1.73p). The final dividend is a proposed 1p making a total of 1.5p gross (same) but this time there is a gross bonus dividend of 0.5p (0.3p).

F & C Eurotrust

The net asset value of F & C Eurotrust improved from 239.3p to 340.6p over the 12 months to end-September.

Net revenue during the year expanded to £415,000, up from £321,000 last time, and the dividend of 2.16p (2p) is payable from earnings of 2.6p (2.66p).

Sedgwick beats City forecasts with £75m

By Patrick Cockburn

SEDGWICK GROUP, the international insurance broker, exceeded market expectations by raising pre-tax profits from £70.8m to £75.3m for the first nine months of 1989.

Earnings advanced 7 per cent to £50.3m, representing 11.8p per share (11p). There was a 2 per cent increase in revenne to £486.1m on constant exchange rates, largely cancelled out by a slight rise in expenses.

Investment income and interest increased by £7m to £44.9m. Revenne growth is lower than the 5.2 per cent seen in the first half partly because Sedgwick's Lloyd's members agaucles have already produced their results.

Mr David Rowland, chairman, said yesterday: "We maintain our emphasis on expense control. The slight increase in the third quarter is primarily dne to increased staff costs." He was pleased revenue was increasing even after stripping out currency gains.

Sedgwick employs aboot 13,000 people overall and there was some impact from June salary increases in the UK. Benefits from the company's early retirement programme in the US is yet to come through.

Mr Rowland also played down talk of increased insurance rates in the wake of Hurricane Hngo, the San Francisco earthquake and other catastrophes in the US.

Commenting on the possible effect of recent losses by the insurance market, he said it was too early to know whether rates would actually harden.

He added that he wanted to discourage unrealistic expectations though there were some areas such as oil facilities where rates were at least no longer falling. He said the picture would become clearer as renewals came through.

Sedgwick has been unable to sell its two major London properties — Sedgwick Centre and Aldgate House — but is to reduce the amount of space it uses in order to let some parts of the buildings.

Boardroom differences prompt Regina chief to quit the hive

By Katharine Campbell

THE QUEEN BEE has left the hive, delivering Regina Health & Beauty, the manufacturer of royal jelly, firmly into the hands of the financial men.

The resignation of Irene Stein, chairman and founder of a company which claims customers for its potion among believers ranging from numerous members of the Royal family to the entire Millwall football team, is understood to result from boardroom differences about cost control.

Regina had run into trouble long before last month, when the romance author Barbara Cartland announced she had stopped using royal jelly and qnestioned whether there were enough worker bees in the world to share the juices they feed their queens with the beauty industry.

Last year, Regina suffered an explosion of administrative and distribution costs - launching a skin care range as well as Animal Magic for the denizens of Crufts - that ate sharply into profits.

Despite a 71 per cent increase in sales to £5.85m in the year to June 30, pre-tax profits inched up a mere 5 per cent to £754,000, as administrative expenses more than donbled to £2.2m, and distribution costs climbed to £999,000 from £537,000.

Mr Gerald Simler, previously finance director, has been appointed to succeed Mrs Stein as chairman. He joined Regina full time in July from his own accountancy practice. He declined yesterday to comment on Mrs Stein's resignation.

However, he said expenses had escalated while growth rates since July had fallen back. He blamed the slowdown in consumar demand, rather than a more competitive marketplace.

A number of companies have been running aggressive advertising campaigns for similar bnt vastly cheaper jellies in recent months, but "they are in a different market from us," he contended.

"As the recently published accounts show, the opportunities available for the company's products remain very positive and nnder my chairmanship I believe the full potential for the company can be realised."

Meanwhile, budget pruning has inclnded staffing levels cut by a third, and a general cutback in expenses, as well as a reduction in advertising. As for the departure of Mrs Stein, "it could be very positive," according to the new chairman. Specifically, he sees "promotion possibilities in being able to use a lot of celebrities in our advertising, rather than just Mrs Stein."

Regina expects decline in profits in the six months to December 31 from the same period in 1988, but hopes to do better in the traditionally more buoyant second half of its financial year.

The share price fell 3p to 14p yesterday, compared with the 20p introduction price on the USM two years ago. The stock had climbed as high as 105p before the October 1987 crash.

Mrs Stein, who has gradually been reducing her shareholding in the company in the past two years, held 6.6m shares at the end of October.

Small holders accept as offer for Rothmans is declared unconditional

By Nikki Tait

PROVING THAT it never pays to prejudge private investors' actions, 52 small shareholders have joined Philip Morris, the US tobacco and food conglomerate, in accepting the offer by Richemont, the Swiss-based group controlled by the South African Rupert family, for Rothmans International.

Their total acceptances cover just 31,075 B shares, and the smallest shareholder owns only five shares.

Formal receipt of the Philip Morris acceptance – in respect of its much more substantial 24.9 per cent voting interest – caused Richemont to declare the offer unconditional as to acceptances yesterday. Richemont already owns a 43.8 per cent voting interest in Rothmans, and the addition of the Morris stake, which was pledged irrevocably to accept at the outset, will take the voting interest up to 68.8 per cent.

The bid remains open until December 6, but Richemont's advisers appear more hopeful that some small shareholders might withdraw their acceptances, rather than wanting more shares to come in. The bid has been pitched in unattractive terms: it offers investors unlisted loan notes and the terms are valued at well below Rothmans current market price. Richemont has made clear that Rothmans' listing will be retained.

Formal advice from the Rothmans' board to shareholders will be given tomorrow along with news of the company's interim figures.

York increases preference issue for acquisition

A fall in the share price of York Trust has provoked a change in the "earnout payments" in relation to the acquisition of Babcock & Brown (UK), the money broking group.

York paid an initial £19m satisfied by the issue of a mix of convertible preference and ordinary shares. A further payment was to be made if pre-tax profits at B&B topped £3.4m in the year to end-March 1989. In the event, these profits reached £6.7m.

However, York said that the number of shares issued was "significantly higher" because of its recent share price fall. So, in order to prevent anyone holding over 30 per cent of its ordinary shares, proportionately more preference shares were being issued. This will give Babcock & Brown Inc 24.9 per cent of the ordinary overall and Mr Babcock, 5.1 per cent.

SW Wood plunges £1.9m into the red

By Vanessa Houlder

S W WOOD, the metal trading group, yesterday announced that it had plunged sharply into the red, following severe losses at its steel trading subsidiary, Braemar.

It reported a pre-tax loss of £1.92m for the six months to September 30, compared with a profit of £782,000, and is passing the interim dividend (2p).

Mr Robin Matthews, chairman, and his brother, Nigel, who joined the group in March when they took a major stake, said they were considering their position.

The problems at Braemar, which will now be closed, stem from a collapse in steel prices in the Far East, which led to the company being overstocked and burdened with increased interest costs.

The loss is far more serious than that anticipated at the AGM in September, when the group announced that its performance would be adversely affected by difficult trading conditions.

The sharp deterioration is the latest episode in a period of upheaval for the company. In August 1987 Braemar joined Wood, a metal merchant and processor, through a reverse takeover.

In April this year the South African Matthews brothers joined the company with the intention of moving into manufacturing, marketing and distribution of industrial products.

The Matthews brothers headed a group of investors including Schroders, Foreign and Colonial Investment Trust, Henderson Group, English and Scottish Investors and City Group, which together took a 26.7 per cent stake.

The shares which were bought by these investors at 160p quickly went up to a high of 273p. Since then the price has collapsed to 55p, following a 14p fall yesterday.

Net asset value has been reduced to about £2.2m although the company said the closure of Braemar would leave the group ungeared.

Elsewhere, in the aluminium smelting division there were delays in the completion of new plant and pressures on margins. Trading conditions in the metal trading depots were reasonable but there were indications that the second half would be less buoyant.

The property trading division did not contribute during the first six months and will not contribute during the current year. An extraordinary charge of £1.3m included £450,000 provision for deferred tax in respect of property sales last year, which will become payable if further investment in qualifying assets is not made by March 1991.

Loss per share worked through at 15.5p (earnings 8.3p).

Robin Matthews, chairman (left) and his brother Nigel: considering their position

An attempt to reduce cyclical exposure

Maggie Urry looks at the advantages of the latest takeover in the paper industry

THE independent career of UK Paper, which yesterday agreed to a takeover bid from Metsä-Serla, a large Finnish forest products company, has been a short but merry one.

From a management buy-out from Bowater Industries at £38m in September 1986, the company floated on the stock exchange in March 1988 at 136p a share, giving a market value of £108m.

Yesterday's takeover price of 330p a share valued the group at £263m.

The management and employees of UK Paper took a 20 per cent equity stake in the buy-out and will have made several fortunes from the takeover. Mr Tom Wilding, UK Paper's chairman, despite selling some of his shares in the flotation and since, still has 1.6m shares, worth £5.28m at the takeover price.

These figures illustrate just how volatile the paper industry can be. Upswings are dramatic – UK Paper was barely profitable in 1986 and made £19m pre-tax in 1988. However, downswings can be just as sharp and uncomfortable.

It is this cyclicality which is in essence the purpose of yesterday's deal. It is founded entirely on industrial logic, not financial wheeler-dealering, and is part of a pattern of mergers and acquisitions in the paper industry worldwide.

UK Paper specialises in fine papers – with uses ranging from photocopying, through stationery, to high quality printing such as annual reports and prospectuses. It buys its pulp, the main raw material for the paper, from other companies.

The pulp price has been rising inexorably for the last three years, although it now looks to have peaked. But in recent months, a weakening of demand for UK Paper's products has meant it was unable to push through price increases sufficient to cover the pulp price rises.

Therefore, margins have been squeezed "to an extent which may not currently be fully anticipated by the stock market" the company said yesterday. Although interim profits were up, the company was hinting yesterday that full year profits will be lower.

This should only be a temporary problem. But it is a strong motivation for the deal. Metsä-Serla, as well as making fine papers like UK Paper, is a large producer of pulp, selling half the 840,000 tonnes a year it makes on the open market. UK Paper, on the other hand, buys 180,000 tonnes of market pulp a year.

[illegible] van der Meer

All those in favour . . . Gustaf Serlachius (left), chairman of Metsä-Serla, with Tom Wilding his counterpart at UK Paper

The pulp price is currently making the seller's operation very profitable, while squeezing the buyer's business. One day, without doubt, the balance will shift the other way.

Getting together means that the enlarged group is less exposed to the swings.

This desire for vertical integration is a powerful force within the paper industry generally, as groups try to tie up supplies and outlets for their products, forging a chain from forests to cardboard boxes or household tissue.

Equally important to papermakers is a need to expand geographically. Big is beautiful has been a cry within the industry for sometime as the paper industry becomes increasingly competitive.

Metsä-Serla makes 30 per cent of its sales within the European Community, but has little production capacity there. As the EC moves towards a single internal market, it is becoming a pressing need for companies outside the market to gain a production foothold inside.

Already there have been numerous acquisitions of EC paper companies by Scandinavian and North American paper groups – such as International Paper of the US taking over Aussedat Rey of France, and Svenska Cellulosa of Sweden buying operations in a number of EC countries.

Therefore, the deal neatly solves a number of problems for Metsä-Serla. At the same time it allows UK Paper to become part of a larger group better able to compete internationally. Mr Wilding said yesterday that if UK Paper was to compete effectively in Europe he felt "it would have been very difficult to stay the sort of size we were."

Expanding Scantronic improves to £3.1m at six months

By Jane Fuller

SCANTRONIC Holdings, a maker of burglar alarms and medical alert systems, has been breaking into new markets in North America and Europe, sending interim profits to more than twice last year's level.

Taxable profits advanced to £3.1m (£1.43m) on a 74 per cent increase in turnover to £19.87m in the six months to September 30.

The improvement came despite a substantial increase in interest payments to £609,000 (£178,000) after acquisitions in the US and France. Gearing stands at about 50 per cent.

To support the assault on the North American market, the company has opened a 30,000 sq ft factory in Costa Rica.

Mr Chris Brookes, chief executive, said significant savings would be made on the manufacturing work that was previously contracted out.

Scantronic has made Paris the centre of its Alarm Parts distribution network, which extends into Spain, Norway and Denmark and sells other makers' goods as well as the parent's.

The Scantronic manufacturing and selling operation is in those countries plus Italy and Benelux, with expansion into West Germany planned for next year.

Although the 10-year-old company originally concentrated its growth effort on the UK, overseas sales amounted to 44 per cent of the business in the first half of this year.

Mr Brookes said two technical improvements had been made to Scantronic's products. A telephone link has been introduced between the control panel of some devices and the central monitoring station enabling remote programming and servicing. Internally, surface mount technology had opened the way for further miniaturisation.

Fully diluted earnings per share reached 4.65p (2.88p) and the interim dividend is 0.715p (0.55p). The share price rose 5p yesterday to 139p.

Dutch subsidiary helps lift Readicut to £8.5m

By Peter Berlin

READICUT INTERNATIONAL, the specialist textiles group, reported interim profits up 28 per cent to £8.5m against £6.7m for the same period of 1988.

Turnover was 16 per cent higher at £111m (£96.2m).

Visscher, the Dutch carpet manufacturer which Readicut bought for £28.3m a year ago, contributed profits of over £1.2m in the six months to September 30, without which the rise would have been 12.4 per cent.

The rights issue which financed the Visscher purchase helped reduce earnings per share to 2.99p (3.03p), but the interim dividend rises to 0.63p (0.57p).

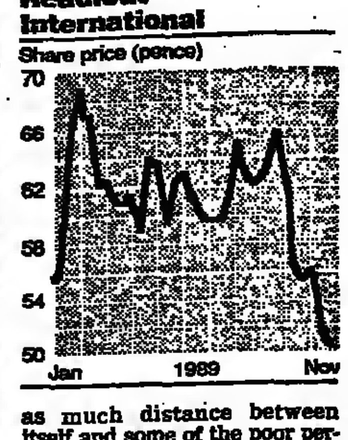
Professor Roland Smith, chairman, said 36 per cent of group sales were made outside the UK, either as exports or produced by Visscher and Readicut's two US subsidiaries. He said this improved the group's defensive qualities because the outlook in those economies was more positive than in the UK.

Mr Clive Shaw, managing director, said Readicut had also benefited from the weakness of the pound which had helped exports and reduced the competitiveness of imports.

Prof Smith said that Readicut's defensive qualities were enhanced by the group's limited exposure to the UK high street market which accounted for only 10 per cent of turnover.

● COMMENT

Prof Smith insists that Readicut is not a textiles company but "a specialised engineering business." It is understandable that the company wants to put as much distance between itself and some of the poor performers in its sector, but making carpets, furnishings and household textiles is chiefly what it does. In that context it has done better than a bad sector but not particularly well in relation to the market as a whole. Carpets look weak and Drake Fibres, which is benefiting from the weakness of sterling, may be threatened by European overcapacity in polypropylene. The industrial products and automotive divisions do look more resilient. The car market may be coming off the top but, in the UK, Readicut has the prospect of growing demand from Nissan, in the short term, and a contract with Toyota, in the longer term. Visscher offers the possibility of grabbing a share of the market in continental Europe but its first-half profits came as a disappointment to the City and *analysts downgraded profit* forecasts for the year to about £19.5m. On a share price of 51p (down ½p on the day), the prospective p/e is 7.5.



DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Amber Industrial ......int	4.4	Jan 11	3.75	-	13.5
Apollo Metals§ ......fin	1.33	Jan 17	-	2	-
BAA ......int	4.5	-	3.5	-	9
Christie Group ......int	1.4	Jan 25	1.4	-	4
City London PR § ......int	0.95	Jan 5	0.75	-	2.25
Control Techs ......fin	3.7†	-	3	5.5†	4.5
Cosalt ......fin	8	Jan 24	4.5	10	7
F&C Eurotrust ......fin	2.16	-	2	2.16	2
Gibbon Lyons§ ......int	1.9	-	1.7	-	5.1
Hartwell ......int	1	Jan 31	1	-	3.1
Hogg Robinson ......int	2	-	2	-	4.7
Mercury Asset ......int	5	-	3.5	-	15
Narborough Plant ......fin	1.5‡☆	-	1.3‡☆	2‡☆	1.8‡☆
Readicut ......int	0.63†	Jan 15	0.57	-	3.16
Rexmore ......int	0.7	Jan 24	0.7	-	2.25
Scantronic ......int	0.715	Jan 11	0.55	-	2.15
Strategem Group ......fin	3.5	-	3	3.5	3
Warburg (SG) ......int	4.5	-	3.7	-	12.5
Wood (SW) ......int	nil	-	2	-	5
Young Brewery ......int	5.5	Dec 8	4.7	-	10.2

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ¶Third market. ‡Gross. ☆Includes bonus of 0.5p (0.3p).
mr.2

Control Techniques expands

FURTHER STRONG progress through the second six months enabled Control Techniques, the electronic variable speed drive manufacturer, to lift profits from £2.69m to a record £4.42m pre-tax for the full year to end-September.

The year, an active one for the Wales-based group on the acquisition front, saw sales rise by £14.58m to £37.7m – also a record.

And with earnings emerging 3.6p higher at 16.6p shareholders are to receive a 1p lift in their dividend to 5.5p, the final being 3.7p (3p) on the enlarged capital.

Mr Trevor Wheatley, chairman, said that despite prevailing high interest rates, strong demand was continuing for all group products in the current year.

Companies acquired during the past 12 months had undergone post-acquisition reviews *and restructuring* in *order* to ensure their successful integration into the group.

The year saw five businesses join the group and new products were continuing to be developed and introduced to the market.

Furthermore, Control Techniques planned to extend or replace existing factories in Italy, Singapore and the UK.

At year-end the group's properties were valued at £2.8m, representing a surplus of £1.7m which was credited to reserves.

The group's shares closed 3p lower yesterday at 222p.

Correction

BET

The table published with BET's results yesterday showed divisional revenues, not operating profits.

Howden plans £7m expansion

Howden Group, the Glasgow-based specialist engineer, has announced a £7m expansion and refurbishment programme at its two Scottish manufacturing bases.

The group is spending £3.3m at James Howden in Renfrew, *and £3.7m at its factory in* Craigton, Glasgow. The programme is scheduled to take nine months to complete.

Howden also unveiled the acquisition of Far East Drilling Consultants and Suppliers (Fedco) of Hong Kong.

The consideration is an initial HK$14m (£1.13m) and *further profit-related payments* up to HK$9.6m.

Cosalt advances on broad front

With all divisions making good progress, Cosalt lifted its pre-tax profit from £3.17m to £5.04m in the year ended September 3 1989.

This 59 per cent growth was achieved on turnover some 17 per cent ahead to £75.97m (£64.83m).

A split of the profit showed manufacturing – synthetic twines, ropes and nets – £2.22m (£1.95m), sales and distribution £1.18m (£843,000), caravan production £1.96m (£1.32m), workwear £563,000 (£49,000), and finance £89,000 (£45,000).

Earnings were 29.16p (21.66p) and the dividend is raised 3p to 10p per share; the final is 6p.

During the year the company added to the workwear side with the purchase of Raven of Barnsley.

NEWS DIGEST

Young cautions on second half

PRE-TAX PROFITS of Young and Co's Brewery increased by 7.4 *per cent from £2.42m to* £2.6m in the half year to September 30 but there were no property gains this time compared with £346,000 in the corresponding half of 1988.

At the trading level, profits displayed a 25 per cent advance to £3.01m (£2.42m).

Beer volume rose 3 per cent helped by the excellent summer weather. Mr John Young, chairman of the south London brewery, said profits advanced in virtually all activities, par-

ticularly from a continuing strong performance in the managed houses.

They expressed caution, however, that the second half may be affected by the squeeze on retail sector spending.

Turnover improved from £23.43m to £25.68m; interest payable rose from £338,336 to £410,217 and after tax of £910,963 (£848,291) earnings per share were up some 3 per cent *to 13.15p (12.19p). The interim* dividend is raised from 4.7p to 5.5p.

Amber Industrial ahead 39%

Amber Industrial Holdings, 75 per cent owned by Caledonia Investments, lifted pre-tax profits by 39 per cent to £984,000 in the six months to September 30 against a previous £706,000. Turnover rose by 11 per cent from £5.43m to £6.03m.

Earnings per 10p share advanced 19 per cent to 19.5p (16.4p) after a higher tax charge of £474,000 (£275,000). The interim dividend is increased to 4.4p (3.75p).

There was an extraordinary £255,000 credit, being the profit on disposal of the company's interest in March Cold Stores.

Mr Peter Buckley, chairman, said that the open offer to shareholders to finance the acquisition of Servo-Chem and Formal Blending, and to provide finance to develop Ambersil's specialty chemicals business had been completed and the acquisition had taken place.

Gibbon Lyons up 46% to £702,000

Gibbon Lyons Group, the USM quoted printing ink manufacturer, reported a 46 per cent increase from £482,000 to £702,000 in pre-tax profits for the six months ended September 30, on turnover 74 per cent higher at £11m.

Directors said that so far the company had not experienced any downturn in sales. The JCR subsidiary increased sales by 23 per cent and Gibbons by 28 per cent and ET Marler, screen printing ink maker, performed well with plans for expansion now being implemented.

Exports of the group more than doubled at £536,000 (£216,000).

Earnings per share emerged at 6.5p (6p) basic and 6.1p (5.6p) fully diluted. The interim dividend is increased from 1.7p to 1.9p.

International Media dips into the red

International Media Communications, the USM-quoted audio and video tape marketing company, reported a pre-tax deficit of £564,000 for the year to end-April.

The outcome, struck on turnover of £2.47m (£887,000), compared with a profit of £182,000 in the previous year and came after losses of £130,000 (£61,000) from discontinued operations.

Directors said the "disappointing" results were mainly attributable to losses incurred by International Media Communications (Video) which was acquired in August of last year. The company has lodged a claim under warranties given by the vendors. Agreement is anticipated shortly, they stated.

The loss per 5p share worked through at 0.67p (earnings of 0.15p). No dividend is proposed.

Rexmore falls to £0.5m in first half

High interest rates and a reduced contribution from J Rosenthal affected the first half at Rexmore.

Turnover for the six months to September 30 fell to £24m (£28m) and the pre-tax profit to £503,000 (£846,000), after interest of £523,000 (£402,000).

The figures were not strictly comparable because of the sale of Waldmans and Rosenthals, explained Mr Abraham Rosenblatt, chairman. Turnover of continuing businesses was £21.5m (£18.3m), with demand for fabrics and timber products continuing at planned levels. Activity in the third quarter was encouraging, he said.

The disposal of Rosenthal will affect the second half, but it is considered that the advantages to come from the sale will continue the progress in improving the group's financial profile and leave it in a better position to develop the retained businesses.

Earnings for the six months fell to 1.8p (3.13p). The interim dividend is again 0.7p.

Net revenue down at Personal Assets

Net revenue at Personal Assets Trust fell to £111,000 over the six months to October 31, down from £150,000 in the corresponding period of 1988.

Directors said the reduction was primarily due to the portfolio having a lower level of liquidity throughout the period.

Income from shares and securities dipped to £201,000 (£263,000) and administration costs increased to £76,000 (£65,000). Earnings per 12.5p share worked through at 0.74p (1.07p).

Talks on Pennant sale called off

The majority shareholder in Pennant Properties, the property development group, has called off talks about the sale of its holding.

Pennant Holdings, the Australian-controlled company with a 50.93 per cent stake in Pennant Properties, failed to reach agreement with either of the two groups which had expressed interest in buying all or part of the investment.

Attempts to dispose of the holding have been taking place since at least last June when the Australian company announced its intention to sell. Pennant Properties shares fell 12p to 63p following the breakdown of talks.

Associated Farmers £1.36m acquisition

Associated Farmers, the Third Market agricultural business, has exchanged contracts to acquire Loddon Livestock Equipment, a manufacturer of high quality stabling and agricultural equipment based in Norfolk.

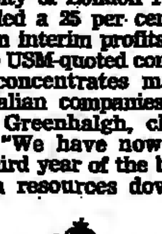
Consideration will be £1.36m cash and the issue by East Anglian-based AF of 179,211 new ordinary shares. The cash element will be financed from the proceeds of an 11-for-8 underwritten rights issue at 52p to raise £1.45m with the balance used to set up joint farming arrangements with a financial institution.

Early next month Associated Farmers intends to appoint Mr Graham Tuppen as commercial director. His responsibilities will include the development of Loddon and its moves into new market and product areas.

City of London PR shows 25% advance

In spite of continuing difficult trading conditions in the Australian natural resources sector, City of London PR Group unveiled a 25 per cent expansion in interim profits.

The USM-quoted consultancy still concentrates mainly on Australian companies and Mr John Greenhalgh, chairman, said: "We have now entered the third year of the bear market in resources down-under



but expect the market to turn before next November. There are already signs that the gloom there may be lifting."

Further progress has been made in the UK and international sides, he added.

In the six months to September 30, profits rose to £470,000 (£376,000) – an advance posted on reduced turnover of £575,000 (£627,000).

Earnings per 10p share expanded to 3.96p (3.5p) and the interim dividend is raised to 0.95p (0.75p).

Chemical Methods reduces loss

Chemical Methods Associates, the Californian-based dishwasher manufacturer which left the USM last year after a takeover, yesterday announced a reduced interim loss and proposals to purchase the minority interests.

CMA had a chequered career on the USM, which it joined in 1983 at 115p. It was taken over in March 1988 by SC Johnson, a manufacturer of consumer products and speciality chemicals, in a deal which valued it at £1.35m.

Integrated Sanitation Management is providing a facility which will give minority shareholders in CMA the opportunity to sell their shares at 38p.

CMA also announced a reduced net loss for the six months to June 30 of $877,800 (£368,000) compared with a net loss of $1.22m.

Stratagem doubles profits to £1.31m

Reflecting a trebling of surplus on the sale of investments, Stratagem Group has increased its pre-tax profit from £603,000 to £1.31m in the year ended August 30 1989.

The surplus came through at £1.08m (£336,000) and other income rose to £320,000 (£233,000). Earnings worked through at 26.2p (11.7p) and the dividend is raised to 3.5p (3p).

Walker & Staff dip due to economy

Walker & Staff Holdings, distributor of valve and pipeline equipmennt, reported a downturn in profits for the half year to September 30. Although turnover improved slightly from £3.49m to £3.79m profits at the pre-tax level declined by £37,000 to £191,000.

Moreover, the directors said that in the present economic climate they could not predict the results for the full year, and added that they were not expected to exceed the previous year's "excellent" £436,000.

After tax of £69,000 (£80,000) earnings per share were down from 6.1p to 5.4p. The company's 5p ordinary shares fell 10p to 155p on the statement.

Reflex Investments ahead to I£1.02m

Profits of Reflex Investments, a USM-quoted supplier and financier of new and second user IBM computer equipment, rose from I£439,000 to I£1.02m (£940,000) for the half year ended October 31.

Turnover of the enlarged group expanded from I£1.48m to I£5.32m. The directors said that with all activities currently trading strongly they expected a good outcome for the second six months.

First half earnings emerged at 6.47p (3.18p) and the interim dividend is lifted 48 per cent to 0.666p.

Apollo slows slightly but advances 65%

Apollo Metals, the processor and distributor of aluminium plate and bar which came to the USM last December, reported pre-tax profits up by 65 per cent to £1.53m for the year to September 30.

The improvement, which compares with an advance of 72 per cent at the half year, reflected not only the general increase in the core business and in exports but also an improvement in margins.

Monument doubles in size at cost of £62m

MONUMENT OIL and Gas, the fast-growing independent oil company, is to double in size with the £61.7m acquisition of Renown Energy from its joint owners, Kleinwort Benson and Hanson. The latter inherited its 50 per cent stake from Consolidated Gold Fields, writes Steven Butler.

The deal, to be financed by a £62.6m share issue, caps off 16 months of hectic expansion after 40 per cent of Monument's shares were acquired in July 1988 by Nimex Resources, which is managed by Mr Tony Craven Walker, former chief executive of Charterhouse Petroleum.

Renown, formerly known as Kleinwort Benson Energy, brings a spread of oil and gas producing and exploration assets concentrated in the UK sector of the North Sea, including 21.3m barrels of UK reserves. It also has US producing assets and an international exploration portfolio.

Monument shares yesterday slipped 1¼p to 28¼p, compared with the issue price of 27½p. The shares have been placed with institutions, subject to a clawback by shareholders on a nine-for-10 basis.

After the deal, Monument's oil and gas reserves will more than double to 44.5m barrels of oil equivalent, and production will rise from 5,400 barrels per day before the acquisition, to 9,300 b/d in 1991 in the UK. The purchase will not substantially alter Monument's balance sheet, which showed £10.7m of net cash at June 30.

The Renown assets, which were independently valued at £64.2m, were purchased for an underlying value of £51.5m, after stripping out cash and other financial factors.

The most important assets include a 5.7 per cent interest in the Ravenspurn North gas field which is expected to start production next year, and smaller shares in Bruce, Esmond, Forbes and Gordon. There are also interests in 31 North Sea blocks where oil has been discovered but development decisions not yet made.

Renown was sold at auction handled by Schroders. Monument was advised by Shearson Lehman Hutton and County NatWest Wood Mackenzie.

Expansion backed by a supportive shareholder

Steven Butler charts the transformation to 'a proper oil company'

JUST WHEN building a sizeable independent oil company from scratch looked nearly impossible, Mr Tony Craven Walker has arrived to prove it can done be done after all.

Yesterday's £61.7m acquisition of Renown Energy, which nearly doubles the size of the Monument Oil and Gas, is just the latest of a series of leaps that have seen this company's market capitalisation grow more than 20 times in the last 14 months. Mr Craven Walker is a director and the main inspiration behind the company.

"It is a business now," said Mr Craven Walker yesterday, as opposed to just an investment in oil assets. "It is a proper oil company."

What this means, in Mr Craven Walker's view, is having the size and spread of assets to contemplate managing a portfolio so as to achieve an optimum spread of risks and maturities, and to be able to exploit opportunities effectively.

With a theoretical market capitalisation of roughly £130m, assuming Monument does not go through another rerating by the market, the company has entered a different sort of league in the oil world.

Mr Craven Walker believes a key factor enabling Monument to grow so rapidly in the past year has been the presence of a large long-term supportive shareholder in the form of Nimex Resources, which owns 40.22 per cent. Mr Craven Walker is chief executive of Nimex, which is a private oil and gas company whose shareholders are Groupe Bruxelles Lambert (50 per cent), Compagnie Financière de Paribas (25 per cent), and Electra Investment Trust (25 per cent). These are three publicly quoted European groups with a collective market capitalisation in excess of £5bn.

Mr Craven Walker stresses the European nature, and advantages, of the ties. He believes they provide an anchor of stability (meaning insurance against predators), strong financial backing, and lots of international connections for deals, while Monument is still able to enjoy the advantages of a public listing in London.

As chief executive, Mr Craven Walker built Charterhouse Petroleum into a substantial company before it was taken over by Petrofina in 1985. In 1986 he found himself pounding the pavement, watching the deals of a lifetime emerge as oil prices collapsed, but unable at the time to put the proper financial backing to exploit them.

The route back into the industry was through Nimex, which acquired the stake in Monument, then a sleepy oil independent, in what amounted to a distress sale of the shares from Lombard Odier et Cie, the private Swiss bank whose shares in Monument were frozen by court order after a refusal to disclose the identity of beneficial shareholders.

Nimex acquired the near-30 per cent stake and sold assets to Monument for shares, raising its holding to 40 per cent, after which its pro-forma general offer to shareholders at 12p a share, compared to a market price of 15½p a share, was mainly rejected (as intended).

Mr Craven Walker then bought back, so to speak, some of the Charterhouse North Sea assets that went to Petrofina, in a £30m deal last November involving a roughly four-to-one share issue at 15p. Monument shares leapt 4½p on the news to 19p.

Of course Nimex took up its full share of the deal with cash from its owners, as it did again yesterday.

Monument did well in the 11th round of North Sea licence awards, gaining sizeable 10 to 20 per cent interests in six blocks, all of which continued to boost the company's share price, giving it a market capitalisation of £75m before yesterday's announcement.

The Renown acquisition effectively doubles Monument's portfolio of assets and gives it an international exposure. To Monument's proven and probable reserves of 19.4m barrels of oil in the UK as of June 30, are added 21.3m barrels in the UK and 3.8m in the US.

Perhaps more important is that Renown has a rising production profile which will offset the decline in Monument's existing producing assets. In the UK Monument's production is expected to rise from 5,400 b/d this year before the acquisition, to 9,300 b/d in 1991. The increased revenue will allow Monument to explore in the UK on a more tax efficient basis.

Renown also brings with it exploration blocks in the Netherlands, Italy, Spain, Portugal, and Australia.

Mr Craven Walker expects some rationalisation of the acquired assets, but mainly attempts to enlarge relatively small shares of acquired holdings, in order to give shareholders significant exposure to exploration risk, and to try to expand the portfolio further.

"Monument is still a small company," he says. "It is on the bottom rung of a ladder we hope to climb."

Metro Radio makes approach to Forth

By Raymond Snoddy

METRO RADIO, the Newcastle-based commercial radio station has made an informal approach to Radio Forth, the Edinburgh independent local radio station.

Metro's interest was conveyed to a meeting of the Forth board on Friday. The Edinburgh station is one of the few city stations that have not been the subject of serious takeover interest in the recent trend towards consolidation in the sector in advance of the Government's planned expansion of commercial radio.

It is believed that Metro suggested a price in the region of £22 per share in cash or shares for control of the Scottish station. Such a price would value Radio Forth at around £11.5m.

Apart from Metro's interest, it is believed that the Forth board also had a proposal before it from Mr Jimmy Gordon's Radio Clyde, one of the most successful commercial radio stations in the UK.

Mr Richard Findlay, managing director of Radio Forth said yesterday: "Obviously I cannot comment on a confidential board meeting."

The Forth managing director who owns a 30 per cent stake in the station insisted yesterday that no formal bid proposal had been received.

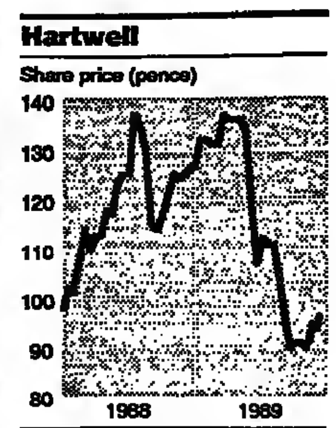
Metro is, however, seriously interested in taking control of Forth but only if an agreed merger is possible. The company has no intention of launching a bostile bid against Forth whose other shareholders include Scottish Television, Clydesdale Bank and Crown Communications.

Hartwell marks time as motor trade margins suffer

By Jane Fuller

THE GROWING pressure on motor trade margins was illustrated by Hartwell's interim results, which showed a 53 per cent increase in turnover but flat pre-tax profits.

Trading profits for the six months to August 31 1989 were up by 38 per cent to £8.32m, but a £2.24m increase in interest payments sliced the pre-tax figure from £5.27m to £5.31m.



The company deals in Rover, Ford and Vauxhall cars as well as commercial vehicles. It increased sales from £210.2m to £322.6m, of which about £50m came from the 10-week contribution of the Charles Clark and Ford & Slater acquisitions.

Mr Peter Huggins, chairman, said although the forecast decrease in car sales had not happened, "there was a great deal of pressure on margins."

It came on new cars in particular, partly because low-margin fleet sales had grown more strongly than the retail side.

Mr Peter Barrett, finance director, said gearing had risen from about 20 per cent before the acquisitions to 60 per cent. More than a third of the interest payments were related to the £29m purchases, which had been made because the dealerships had the right mix of models and were geographically complementary.

In the current year, turnover was expected to rise to £700m from £404m in the year to February. This includes the ancillary activities of fuel oil distribution and property.

Mr Huggins said Hartwell was tightening its belt. This included a scrutiny of working capital: "You can make as much money by reducing the amount of capital as by going out to sell vehicles."

He also stressed the sound performance of more stable activities, such as the workshops and specialist cars. He welcomed Ford's takeover of Jaguar and said sales of the new Land Rover Discovery had been encouraging.

There was little comfort in the non-motor parts of the business. The dry summer had almost wiped out demand for oil for grain drying on farms and although property rental income was up, the building side was depressed.

Earnings per share slipped 8 per cent to 6.18p. The interim dividend is maintained at 1p.

● COMMENT

Hartwell admits the scenario is depressing until the middle of next year. With interest rates set to stay high, it is more likely that the company will be helped by a winter freeze than an economic upturn. Hartwell says "we've seen it all before" in a cyclical trade, but this time it has just paid what some analysts regard as a high price for acquisitions, at a time of falling margins and expensive borrowing. Whatever the long-term strategic merits, interest payments could be as much as £8m for the full year and earnings will be further diluted through the convertible preference shares that helped fund the buy. This year's pre-tax profit is forecast to stay about level with the previous £10.4m, giving a prospective multiple of between 13 and 14. This rightly includes a property premium, as the company has done well out of developing former dealership sites. The rest of the high valuation is put down to bid speculation fuelled by the 18 per cent stake held by the Saodi Arabian Jemeel family. But that seems unrealistic bearing in mind manufacturers' veto over franchise changes.

House sales slump hits Christie

THE COLLAPSE in the house sales market hit the Christie Group, which saw its first half pre-tax profit fall from £2.66m to £608,000.

Christie providee agency, valuation and other services to the hotel, nursing homes, and leisure and retail trades.

Mr Philip Gwyn, chairman, said most of the agency sales were to individuals buying a business for the first time, and looking to the sale of a house to provide equity for the business purchase. The collapse of the housing market made that substantially more difficult.

Also, the group had enjoyed substantial growth over the past five years, and incurred the increased costs associated with thet. Costs have been reduced but Mr Gwyn said "we are relnctant to make cuts in areas we believe will contribute to future growth".

The four core UK businesses were profitable, although the result overall reflected the problems in the market. It was difficult to give any firm forecast for the year, he added.

Mr Gwyn said that one longer term result of current conditions would be to create structural change in the commercial area, which would result in a fall in the number of competitors in the market.

Earnings dropped to 1.57p (7.7p) but the interim dividend is held at 1.4p.

Dual buy for Thorpac

THORPAC the acquisitive packaging maker and supplier, has added JCB and Pavelodge, two manufacturers of extruded plastic products, to its stable of companies in purchases worth up to £8.7m.

The group will make an initial payment of £3.15m for JCB. The terms of the deal also contained provision for payments of up to £4.5m dependent on profits in the 23 months to March 1991. JCB made pre-tax profits of £452,000 on turnover of £8.06m in the year to the end of April.

Pavelodge is a family-owned firm based in Redditch which supplies polythene film and bags to local government and independent merchants in the Midlands.

Thorpac will make an initial payment of £550,000 with further payments of up to £500,000 based on profits until March 1991.

Pavelodge made pre-tax profits of £247,000 in the year to March 1989 on turnover of approximately £4m.

Anglo Irish Bank advances to I£3.7m

Anglo Irish Bank achieved pre-tax profits of I£3.7m (£3.42m) for the year ended September 30, an advance from I£2.23m in the previous 12 months.

Tax took I£990,000 (I£935,000) and the Irish Government bank levy I£312,000 (I£169,000), leaving earnings per share at 5.65p (3.4p). A final dividend of 1.0655p makes a same-again 3.2p for the year.

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FT LAW REPORTS

Delay order is contractual

THE ULYANOVSK
Queen's Bench Division (Commercial Court): Mr Justice Steyn: November 13 1989

VOYAGE CHARTERERS are entitled to order the chartered vessel not to berth or load after it has arrived at its loading port, in the absence of contractual provision to the contrary, though delay would cause it to exceed laytime; and the shipowners are therefore liable in damages if, in breach of contract, the master disregards the order and the charterers suffer loss in the market as a result.

Mr Justice Steyn so held when dismissing an appeal by Neopetro Co Ltd of Bermuda, owners of the Ulyanovsk, from an interim arbitrators' award that they were liable in damages to charterers, Novorossisk Shipping Co of the USSR, for breach of contract.

HIS LORDSHIP said that by a voyage charterparty in standard Asbatankvoy form, the Ulyanovsk was chartered to carry 29,000 tonnes of gas oil from Algeria to one/two safe ports in the European Mediterranean.

The charterers gave voyage instructions to the owners to proceed to Skikda for loading. They ordered that on arrival the master was to tender notice of readiness "to charterers only," and was not to present the ship for berthing until they instructed him to do so.

The reason for the instructions was that the charterers had to pay suppliers by formula based on the average of prices on bill of lading date and two days before. They calculated thet they could profit from a weakening market by delaying shipment for a couple of days.

As the market did weaken, the price payable to their suppliers in accordance with formula would have been lower if the bill of lading date had been postponed.

The vessel arrived at Skikda on December 6 1985. In disregard of voyage instructions, the master tendered notice of readiness to the refinery and shippers on December 6, and loading commenced. With one interruption, loading was completed and the bill of lading was issued on December 7.

The market in gas oil dropped dramatically. The charterers had to pay suppliers on the basis of the December 7 bill of lading. In the falling spot market, they could not dispose of the cargo at the same price.

The charterers claimed damages for breach of contract. The owners denied liability.

Arbitrators concluded the charterers were entitled to recover $865,591, for losses suffered as a result of the owners' breach of contract in disobeying instructions. The owners appealed.

Their primary ground was that the voyage orders were uncontractual and they were therefore not in breach in failing to comply with them.

Part I clause 6 of the charterparty provided that on arrival at anchorage at loading port the master should give charterers notice of readiness to load. Laytime began six hours later.

Clause 9 provided that the vessel should load at any safe place "reachable on her arrival" designated and procured by charterers.

Part I of the charter provided for 72 hours laytime and demurrage at $9,000 per day.

The owners' factual premise was that the voyage order necessarily involved failure to load within lay days, and that charterers would therefore commit a breach of contract. Though it was not conceded, the court would assume (without deciding) that the premise was correct.

The central issue identified by the arbitrators was whether the charterers were "entitled" to give the instructions.

The owners submitted first, that the charterparty, on its true construction or by implication, forbade the giving of orders which, if complied with, would prevent performance of charterers' obligations, or would require owners to perform services additional to or different from those agreed.

The arbitrators concluded there was a berth "reachable" on arrival, and an order to load could not be faulted if the berth was physically capable of being reached. They said charterers must be entitled to hold a vessel off a reachable berth for at least some while. The orders to wait could not be illegitimate *per se* when given.

What, they asked rhetorically, was the difference between ordering the vessel to wait because of truck shortage or supply problems, and an order to wait "because it suits us marketwise?" The owners' argument, if accepted, would have far-reaching consequences for the shipping trade.

For example, if after arrival and during laytime, charterers ordered the vessel not to berth and load because they wished to inspect cargo to ensure it was contractual or could be carried safely, that order would be uncontractual and might be ignored by owners if laytime would be exceeded. The owners asserted that to be the case. Such a conclusion would flout common sense.

On the construction of commercial contracts, and notably standard form contracts, the predisposition of judge and arbitrator must be in favour of business common sense.

The example was very different from the present case, where charterers wished to delay to achieve a lower price under the supply contract. But that was no answer, because the owners' proposition was based on the objective criterion of *the effect* of the order, in causing laytime to be exceeded.

They did not seek to argue that the validity of an order to delay berthing and loading might depend on motive. Such a proposition would be unworkable in practice and was contrary to the long-established rule that charterers might use laytime as they pleased. Laying aside repudiation, the alleged contract-breaker's motives were in law irrelevant.

If the arbitrators' view were upheld, the law was relatively simple. The charterers might delay loading during laytime, subject to their obligation to pay demurrage, and subject to the owners' right to sail away after delay became so prolonged as to amount to frustration of the adventure.

It was a readily comprehensible framework against which parties could evaluate the risks of an adventure and agree on appropriate rates. It was to be preferred unless the contract clearly required otherwise.

The springboard of the owners' argument was that it was breach of contract for a charterer to fail to load and discharge within the time stipulated. On the other hand, it was common ground that the voyage orders did not amount to a repudiation.

The anticipated delay beyond laytime afforded the owners no relief. Their exclusive remedy was demurrage for actual breach after laytime had been exceeded. And subject to frustration, the owner must continue to perform his part of the contract (see *Dias [1978] 1 WLR 261*).

It followed that until loading had been completed, the vessel was at charterers' disposition in relation to loading. That entitled charterers to give orders as to time of commencement of loading, and interruption of loading.

The charterers bought 72 hours laytime and paid for it in the freight. They were entitled to use that laytime as they wished.

Even if they could load in less than the stipulated laytime, they must keep the ship for the whole of the laytime. Their right to the whole of the laytime was not to be abridged by requiring them to commence loading at any particular time. Those propositions were established law.

The charterers were therefore entitled after arrival of the vessel and during laytime, to make arrangements with their shippers which delayed commencement of loading, or interrupted loading, even if laytime were exceeded.

It followed that orders given to the vessel during laytime to wait and not to berth and load, were lawful and must be obeyed. The owners' first line of argument failed.

Their second submission was based on construction of the "reachable on arrival" provision in clause 9. They contended that the charterparty, on its true construction, forbade the giving of orders which would prevent owners from reaching the designated berth on arrival.

The berth was "reachable." The clause read in the context of the laytime and other provisions, did not provide that the vessel must be ordered to berth at any particular time. The owners' position was in practice protected by the laytime code, demurrage provisions, and the frustration rule.

The argument failed and the appeal was dismissed.

For the shipowners: Michael Collins QC and Steven Berry (Middleton Lewis Lawrence Graham)
For the charterers: David Johnson QC and Charles Priday (Middleton Potts)

Rachel Davies
Barrister

COMMODITIES AND AGRICULTURE

Gold price breaks through $400

By David Blackwell

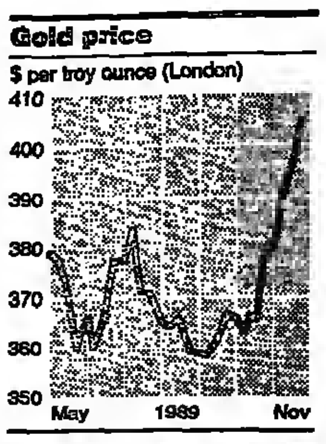
GOLD BROKE through the $400-a-troy ounce barrier on the London bullion market yesterday. It closed at $404.25 an ounce, a rise of $8 and the highest level for 10 months.

In the morning prices rose quickly as the dollar weakened, and was fixed at $400.30 an ounce. One trader commented that dealers had "got it into their heads that they were going to push it above $400."

There was no followthrough, however, and the afternoon fix was at $399 an ounce, but prices surged again as New York's Comex opened higher.

Gold has now risen by almost $40 in a month, and most analysts are confident that the bear trend of the past two years is history. There is concern, however, that the rise is too much too soon – only a fortnight ago analysts were looking for $400 an ounce by the end of the year. "Traders are breathless," said Mr Andrew Smith of UBS Phillips & Drew. "They need to pause for breath on the way up."

"A little bit of consolidation would be very handy," said Mr Robert Weinberg, head of international mining sales at the James Capel securities house.



Mr Smith cites three factors behind the rise: the Wall Street "crashette" on October 16; the events in East Germany, which have hit the Deutschmark and West German bonds; and the fact that gold producers have not been selling forward.

"There is a new uncertainty surrounding paper assets," he said. But he felt that at the current price level profit-taking would emerge and believed the market needed a US interest rate fall to bring in institutional investors before it moved further ahead.

Mr Weinberg, who earlier this month was not convinced the bear trend was over, now believes the market has turned. Low prices had encouraged fabricators to buy and discouraged both scrap recovery and forward loans, leading to an improved supply/demand balance. "I am confident that we are into a new environment," he said yesterday.

Ivorian cocoa, the cash crop nobody wants to buy

Mark Huband studies the deepening crisis caused by overproduction and sagging prices

TWENTY SACKS of cocoa are sitting in the storeroom, but nobody can afford to buy them. Out in the fields the cocoa pods are bulging, the coffee beans gleaming red in the sun, but each day the farmers wonder whether they have either the manpower or the reason to pick them.

This village, like others in the Ivory Coast's cocoa belt, is rapidly moving into a deep crisis as the market its peasant farmers have fed for years slips away.

Six weeks into the harvest the season is running a month behind schedule, Mr Rene Amani, managing director of the Caisse de Stabilisation (known as Caistab), or commodities marketing board, said yesterday. Cocoa arrivals at the ports of Abidjan and San Pedro currently stand at 50,000 tonnes, compared with 140,000 tonnes at the same stage last year. He acknowledged the reason as being that shippers are having problems coming up with funds.

Crop forecasts had led trading houses to believe that around 300,000 tonnes would be moved by the middle of December. The current rate suggests it will be nearer 90,000 tonnes.

Massive arrears for payment of the 1988 crop hang over the heads of cocoa buyers who are now unable to buy the current crop, which is ready for shipping but is to be found sitting in storehouses throughout the country's cocoa belt.

An Ivorian farmer examines pods bulging with cocoa beans on a plantation near Gagnoa

The lending of large sums to the buyers during the last two years has left the banks with severe liquidity problems, because of falling prices. A recent confidential biannual Central Bank report shows that the 13 foreign and Ivorian commercial banks operating in Abidjan have assets worth $236m, while the figure for outstanding loans had reached $363m by July of this year.

While some banks continue to lend on the security of the current harvest, the slack sales experienced so far suggest that repayment of accrued debts will be possible only if there is a price increase to oil the wheels of the buying and exportation process.

The cash flow problems experienced by the buyers as a result of the dramatic fall in prices have left some unable to pay farmers for much of the 1988-89 harvest. This has created a climate of distrust.

"It is all over for us unless there is a price rise soon," said one farmer. "We are finished. Our village and the seven others which make up the co-operative we are part of are collectively owed 3m CFA francs ($8,000) and most of us have not been paid for a year.

"Nobody can afford to buy meat to eat, nor we can afford tools for clearing ground around the crops. Our children are going without school books and old people in the village cannot afford to buy medicines," he said.

The cut in the producer price paid to Ivory Coast cocoa growers in December reduced their income, at least on the official level, by half. The cut from last year's level of 400 CFA francs a kilogram to the current 200 CFA francs was the Government's response to the fall in world market prices which it had steadfastly refused to acknowledge in previous years.

But despite the official 200 CFA francs a kilogram price, farmers claim the market is so stagnant that crops are increasingly being sold at prices far below that figure: "Secretly, in the night, buyers come and offer less than 200 francs. People who are desperate to buy medicines or send their children to school with books, are sometimes prepared to go as low as 150 francs," one farmer said.

Sellers undercutting each other in this way has caused serious strains in some villages, it is claimed. Farmers are desperate to bring pressure on the Government by presenting a common cause to the Government.

The co-operatives have long aimed to sell cocoa and coffee direct to exporters, cutting out the buyers, known as *traitants*, whose shortage of money has contributed to the current slow market. But this would require the farmers to provide transport, the expense of which makes up a significant proportion of the overall costs. With banks reluctant to lend, these funds are hard to come by.

One buyer claimed the farmers would soon be forced to sell to the *traitants* in order for the produce to reach the ports. They will then have to wait for their money to arrive, as many have been doing for the past year. "The signs are certainly bad for the farmers, but there is no question of crops being left in the villages, so they will have to transport them to the ports and wait until the *traitants* have the money to pay them," he said.

The serious shortage of cash has forced mainly young people to leave villages, which makes current attempts towards diversification of crops more difficult. The shortage of labour, with 200 people having left one village in the past year, reducing the population to 800, adds to the difficulty of buying new seeds and tools caused by lack of income.

As concern spreads among farmers, there has been criticism of the Caistab for its handling of deals which could yield bigger profits if it moved more quickly. One buyer said yesterday: "We offer the Caistab good prices and they say no because they want to wait for better prices. In the end they lose out because they always have to sell at discount and eventually sell to us at a lower price than originally offered."

Everybody in the Ivory Coast is waiting for cocoa and coffee prices to recover from their current at historic lows. But with increasingly powerful competition coming from neighbouring Ghana as well as Asian producers like Malaysia, they look like having a long wait.

EC Ministers approve rise in milk quotas

By Tim Dickson in Brussels

PLANS TO increase European Community milk quotas by 1 per cent were approved by EC Farm Ministers yesterday – but to offset the cost to the Community budget the guaranteed EC prices of butter and skimmed milk powder are to be reduced.

The butter price guarantee will be cut by 2.5 per cent and that for skimmed milk powder by 0.75 per cent. In addition penalties for overproduction of milk will be increased.

The agreement is the culmination of several months of difficult negotiations and represents a victory for Mr Henri Nallet, the French Agriculture Minister, who has been under pressure from his domestic farming industry to relax the system of production controls, first introduced by the EC in 1984.

When it introduced its proposal earlier in the year the European Commission said that some flexibility for "hardship cases" was justified in view of the substantial reduction in surplus butter stocks and the reduced role of "intervention" buying.

Britain (which was one of three member states to abstain yesterday) has been sceptical throughout, arguing that Community dairy output still comfortably exceeded consumption.

The key sticking point in the discussions had not been the 1 per cent increase in the Community's quota reserve as such – to be achieved by a 1 per cent reduction in the 5.5 per cent of quotas suspended under the famous 1986 reform – but the means of ensuring that the measure involved no additional cost to the Community agriculture budget.

In the end it has been decided to achieve "budget neutrality" by cutting the butter and skimmed milk powder prices – effective from 1 March next year – and to increase from April 1 the so-called "superlevy" on those farmers who produce too much milk from 100 per cent to 115 per cent of the market value of their excess production.

It was understood last night that member states would have to come forward with plans for allocating the extra quota to young farmers and smaller-scale producers and that these would be vetted by the Commission before being approved.

Recent confusion over a controversial EC cereals tax was cleared up yesterday when Farm Ministers agreed to waive the payment this year and change the basis of its calculation for subsequent marketing seasons.

The fuss has centred on the so-called additional co-responsibility levy, one of the penalties under the 1988 "budget stabiliser" package which is triggered when the EC cereals harvest exceeds the maximum guaranteed quantity of 160m tonnes. Under the rules of the regime the amount of this additional levy – to be distinguished from the long-standing basic co-responsibility levy – is equivalent to the percentage overshoot of 160m tonnes up to a maximum of 3 per cent.

Farm organisations have from the outset been unhappy about the way in which the member states are expected to collect the full 3 per cent at the start of the cereals campaign – reimbursing part or all of the money once the official harvest figure becomes known. Dissatisfaction was particularly intense this year with the production overrun just 500,000 tonnes, or 0.3 per cent of the total.

The Commission's original proposal that under the *de minimis* principle the 0.3 per cent penalty should be waived for 1989-90 was initially disputed by the UK – but yesterday the Council agreed unanimously to support the Commission's concession, though for this year only.

As for next year, Ministers unanimously approved a compromise put forward by Greece whereby the additional co-responsibility levy will be levied in two tranches – one of 1.5 per cent at the start of the marketing season in question and the other in the following year, up to 1.5 per cent though depending on the actual harvest figure. The advantage of this system is that reimbursement during the course of a campaign will be avoided.

Both decisions taken yesterday will have to be formally ratified at a future Council after the opinion of the European Parliament has been delivered.

● The British Government has lifted the restrictions on milk sales from 413 of the 1,500 farms suspected of having fed imported lead-contaminated feed to dairy cows. However, no beef cattle have yet been released for sale.

WEEKLY METALS

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, 1,750-1,800 (same).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 4.35-4.75 (4.60-4.70).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 5.10-5.50 (5.20-5.60).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 7.45-7.70 (7.50-7.70).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 245-255 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 2.70-2.80 (2.90-3.00).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 5.50-6.00 (same).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO_3, cif, 44-60 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb V_2O_5, cif, 2.90-3.00 (3.10-3.30).

URANIUM: Nuexco exchange value, $ per lb, U_3O_8, 9.60 (same).

Finns to study Soviet forests

By Enrique Tessieri in Helsinki

JAAKKO POYRY, the Finnish forestry consulting group, is expected to sign a letter of intent with the Soviet Union next month to begin a one- to two-year feasibility study that will chart and determine the economic potential of some 200m hectares of forests in the north-western part of the Soviet Union.

According to Jaakko Pöyry officials, the study would determine the basis of building a forest-based industry west of the Ural Mountains and in the regions of Komi, Arkhangelsk, Vologda, Soviet Karelia, Leningrad and Novgorod. Analysts estimate that it would take between 10 and 15 years fully to develop Soviet forest industry potential in this area.

"The Soviets approached us a year and a half ago on this matter and we have been carrying out talks with the (Soviet) Ministry of Forest Industries and Gosplan," said Mr Jukka Nyrölä, managing director of Jaakko Pöyry and directly involved with the feasibility study.

Mr Nyrölä added that a letter of intent would most probably be signed with the Soviets by next month to begin the feasibility study and that the project would commence at the beginning of next year.

During that one- to two-year period, the feasibility study will chart the economic potential of creating a forest-based industry in that European part of the Soviet Union.

"This would include charting infrastructure needs (roads, railways and telecommunications), potential for paper and pulp mills that would offer their products for domestic and international markets. We will also determine what potential there is for wood mechanisation and sawmilling," Mr Nyrölä added.

The study also aims at determining the state of the forests within this enormous area as well as how much and what kinds of trees could be exploited.

"After this phase is over, we hope to take part in follow-up studies for concrete projects," Mr Nyrölä added.

Even if the Soviet Union is going through some major economic restructuring due to perestroika, Mr Nyrölä believes that the final decision to develop a forest-based industry in the Soviet Union would rest with the local authorities and not with Moscow.

Mr Matti Pekkanen, president of the Central Association of Finnish Forest Industries announced this project last month during Soviet leader Mikhail Gorbachev's three-day visit to Finland.

"Because the size of this project would be enormous, Finland alone does not have the capacity nor the capital to exploit and develop this area's forest industry," Mr Pekkanen admitted. "Finland could, for instance, form a financial consortium with West German, Japanese and Italian capital."

CAFFI officials said any specific cost estimates on developing the area would be premature, but mentioned that "it would be in the range of tens of billions of dollars."

"One of the options open to us would be to build these mills and other facilities on a buy-back basis," Mr Pekkanen continued. "Other possibilities include traditional joint venture schemes between Soviet and Western companies."

Mr Pekkanen said the Soviet Union had some 900m hectares of forest, whereas Finland's 20m ha gave it an annual production capacity of about FM50bn (£7.5bn).

WORLD COMMODITIES PRICES

LONDON MARKETS

COCOA prices retreated yesterday in London, with March closing at a new 14-year low of £667 a tonne. Trading was weak, dealers said, and origins were still hovering around the market, waiting to sell at higher levels. Worries about a lack of supplies for delivery against December are easing as large amounts of cocoa are being graded. Coffee prices closed mixed as the meeting of producers in Costa Rica did not look like bringing much hope for an early resumption of the world coffee pact, dealers said. Costa Rican Foreign Trade minister Luis Escalante said he did not expect a resumption of the agreement before late next year. On the LME copper recovered a little of Monday's losses, with the steady tone aided by an anticipated rally on Comex, traders said. The London market still appears to be relatively highly priced compared with New York.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$16.05-6.15z	+.015
Brent Blend	$18.60-8.65z	+.025
W.T.I. (1 pm est)	$19.80-9.94z	+.180
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$186-188	
Gas Oil	$167-168	-2
Heavy Fuel Oil	$103-105	
Naphtha	$159-161	
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$404.25	+4.00
Silver (per troy oz)♣	578c	+5
Platinum (per troy oz)	$526.5	+5.0
Palladium (per troy oz)	$143.50	+0.75
Aluminium (free market)	$1705	+5
Copper (US Producer)	114⅝-115	-7¼
Lead (US Producer)	39c	
Nickel (free market)	455c	-25
Tin (Kuala Lumpur market)	18.32r	
Tin (New York)	320.5c	
Zinc (US Prime Western)	75¼c	
Cattle (live weight)†	112.57p	-1.28*
Sheep (dead weight)†	200.23p	-6.61*
Pigs (live weight)†	89.59p	-4.82*
London daily sugar (raw)	$375.0x	-6.4
London daily sugar (white)	$402x	-6
Tate and Lyle export price	£355.5	-7.0
Barley (English feed)	£114.9	
Maize (US No. 3 yellow)	£128.9	+0.6
Wheat (US Dark Northern)	£128.00	+0.25
Rubber (spot)♥	57.25p	-0.75
Rubber (Dec)♥	59.00p	-0.75
Rubber (Jan)♥	60.00p	-0.75
Rubber (KL RSS No 1 Dec)	227.0m	-0.5
Coconut oil (Philippines)§	$462.5v	-2.5
Palm Oil (Malaysian)§	$302.5	-2.5
Copra (Philippines)§	$295	-5
Soyabeans (US)	£173.5	-2.5
Cotton "A" index	*81.35c*	*-0.90*
Wooltops (64s Super)	585p	

£ = tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Oct. x-Dec/Jan. t-Jan/Mar. v-Nov/Dec. w-Dec. z-Jan †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA – London FOX £/tonne

	Close	Previous	High/Low	
Dec	690	694	693	682
Mar	667	674	671	666
May	676	685	681	677
Jul	690	695	694	689
Sep	707	714	709	707
Dec	730	735	734	729
Mar	749	757	752	748

Turnover: 5219 (3726) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Nov 20 784.76 (789.34); 10 day average for Nov 21 806.69 (810.77)

COFFEE – London FOX £/tonne

	Close	Previous	High/Low	
Nov	701	695	695	683
Jan	681	683	685	674
Mar	686	681	690	682
May	705	711	712	701
Jul	722	731	730	721
Sep	742	751	750	742
Nov	760	770		

Turnover: 3743 (3300) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Nov 20: Comp. daily 81.26 (81.11); 15 day average 82.39 (82.44)

SUGAR – London FOX ($ per tonne)

Raw	Close	Previous	High/Low	
Dec	329.40	334.40	335.80	329.60
Mar	328.00	330.20	331.40	325.00
May	320.20	325.00	325.60	320.00
Aug	312.40	315.40	316.00	312.40
Oct	310.00	313.00	310.00	310.00
Dec	300.00	301.00	300.00	296.00
White	**Close**	**Previous**	**High/Low**	
Mar	385.50	399.00	400.00	385.00
May	399.00	403.00	403.00	399.50
Aug	407.00	411.50	411.00	407.50
Oct	380.50	385.00	384.50	380.00

Turnover: Raw 6149 (6372) lots of 50 tonnes. White 962 (764)
Paris- White (FFr per tonne): Mar 2480, May 2515, Aug 2578, Oct 2418, Dec 2343, Mar 2340.

CRUDE OIL – IPE $/barrel

	Close	Previous	High/Low	
Jan	18.58	18.63	18.69	18.58
Feb	18.40	18.45	18.48	18.40
IPE Index	18.59	18.56		

Turnover: 3931 (5152)

GAS OIL – IPE $/tonne

	Close	Previous	High/Low	
Dec	182.00	183.50	183.75	181.75
Jan	175.75	178.00	178.75	178.75
Feb	172.25	172.75	173.25	172.00
Mar	167.25	167.75	168.00	167.90
Apr	161.75	162.50	163.00	161.75
May	159.75	159.25	159.75	
Jul	159.00	158.25	159.50	158.50
Aug	159.50		159.50	

Turnover 3634 (5777)lots of 100 tonnes

JUTE
November/December c and f Dundee BTC $570, BWC $560, BTD $495, BWD $485; c and f Antwerp BTC $560, BWC $550, BTD $485, BWD $475.

COTTON
Liverpool-Spot and shipment sales for the week ended 17 November amounted to 990 tonnes against 496 tonnes in the previous week. Trading was very low during the week with only small orders made in West African growers.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 8,650 tonne
Cash	1705-10	1680-3	1709	1705-8		
3 months	1710-2	1684-5	1714/1698	1710-1	1714-5	22,365 lots
Copper, Grade A (£ per tonne)						Ring turnover 39,575 tonne
Cash	1589-91	1581-3	1589/1588	1588-9		
3 months	1598-9	1589-7	1600/1593	1598-7	1603-4	77,379 lots
Lead (£ per tonne)						Ring turnover 8,525 tonne
Cash	424-5	419-20	430	428-30		
3 months	425-6	419-20	428/416	426.5-7.5	425-6	11,624 lots
Nickel ($ per tonne)						Ring turnover 144 tonne
Cash	9650-800	9600-25	9650/9640	9600-800		
3 months	9450-75	9600-25	9550/9450	9450-60	9465-75	7,000 lots
Tin ($ per tonne)						Ring turnover 315 tonne
Cash	6605-10	6620-40	6660	6650-70		
3 months	7040-50	7040-50	7085/7020	7065-75	7035-50	5,165 lots
Zinc, Special High Grade ($ per tonne)						Ring turnover 4,425 tonne
Cash	1415-8	1420-30	1430/1429	1429-30		
3 months	1396-400	1397-400	1410/1395	1409-10	1405-6	16,107 lots
Zinc ($ per tonne)						Ring turnover 300 tonne
Cash	1410-20	1405-15	1435	1430-2		
3 months	1375-85	1365-75	1380	1380-5	1375-85	2,841 lots

LME Closing £/$ rate: SPOT: 1.5660 3 months: 1.5425 6 months: 1.5219 9 months: 1.5002

POTATOES – BFE £/tonne

	Close	Previous	High/Low	
Feb	150.0	155.0		
Apr	203.8	208.0	203.0	203.8
May	228.0	228.5	229.0	228.5

Turnover 175 (58) lots of 40 tonnes.

SOYABEAN MEAL – BFE £/tonne

	Close	Previous	High/Low
Feb	148.00	148.00	148.00
Apr	143.70	148.00	143.70

Turnover 40 (95) lots of 20 tonnes.

FREIGHT FUTURES – BFE $10/index point

	Close	Previous	High/Low	
Nov	1676	1665	1681	1670
Dec	1685	1671	1691	1680
Jan	1688	1677	1690	1678
Apr	1695	1690	1695	1690
Jul	1420	1420		
BFI	1670	1666		

Turnover 306 (82)

GRAINS – BFE £/tonne

Wheat	Close	Previous	High/Low	
Nov	109.60	109.50	109.85	109.70
Jan	112.50	112.35	112.50	112.30
Mar	116.25	116.35	116.50	116.10
May	119.50	119.65	119.50	119.35
Jun	120.85	121.00		
Sep	104.35	104.35		
Nov	107.35	107.35	107.35	

Barley	Close	Previous	High/Low	
Nov	107.65	107.65	117.75	107.65
Jan	110.75	111.10	111.00	110.75
Mar	113.45	113.85		
Nov	105.25		105.25	

Turnover: Wheat 253 (297), Barley 95 (124).
Turnover lots of 100 tonnes.

PIGS – BFE (Cash Settlement) p/kg

	Close	Previous	High/Low	
Nov	123.0	123.5		
Feb	112.5	113.9	112.5	112.0
Apr	113.9	115.5		

Turnover 5 (6) lots of 3,250 kg

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	404-404½	257¾-258
Opening	397½-398¼	255-255½
Morning fix	400.30	254.895
Afternoon fix	399.00	254.160
Day's high	404-404½	
Day's low	397¼-398¼	
Coins	**$ price**	**£ equivalent**
Maple leaf	413-418	263-266
Britannia	413-418	263-266
US Eagle	413-418	263-266
Angel	413-418	263-266
Krugerrand	403-406	257-259
New Sov.	94-95	59-60
Old Sov.	94-95	59-60
Noble Plat	532.85-541.25	340.50-345.85

Silver fix	p/fine oz	US cts equiv
Spot	366.10	575.80
3 months	380.20	588.30
6 months	393.00	599.40
12 months	419.15	622.75

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jan	Mar	Jan	Mar
1600	136	133	14	33
1700	69	76	46	74
1800	28	36	104	134
Copper (Grade A)	**Calls**		**Puts**	
2350	167	174	33	86
2450	104	125	68	133
2550	59	84	122	191
Coffee	**Jan**	**Mar**	**Jan**	**Mar**
650	38	63	7	27
700	12	37	31	51
750	2	16	71	82
Cocoa	**Mar**	**May**	**Mar**	**May**
600	80		14	
650	48	63	32	36
700	27	38	61	52
Brent Crude	**Jan**	**Feb**	**Jan**	**Feb**
1800	74	79	16	36
1850	45	51	32	
1900	22	31		

US MARKETS

IN THE METALS, prices continued higher in the gold, silver and platinum markets, reports Drexel Burnham Lambert. Heavy technical buying lifted gold 5.10 basis December as the day's most active metal. A sharply lower US dollar also pressured the markets. Copper trading was moderate with commission house activity seen. Switch action made up most of the volume. In the softs, trade selling weighed on the sugar market. Cocoa and coffee were both slow. The grains featured consolidation in the soy complex after the heavy declines on Monday. Corn and wheat futures remained quiet. The livestocks all advanced due to commission house buying. The energy complex featured mostly local participation. Two-sided action keep prices near unchanged for most of the day. Carryover selling from Monday kept cotton from advancing.

New York

GOLD 100 troy oz.; $/troy oz.

	Close	Previous	High/Low	
Nov	403.7	398.2	404.0	404.0
Dec	404.4	399.3	406.2	398.6
Jan	407.2	402.1	0	0
Feb	409.7	404.5	411.5	404.0
Apr	414.7	409.8	416.5	409.5
Jun	419.8	414.5	421.5	414.5
Aug	424.2	419.0	425.5	419.4
Oct	428.9	423.0	429.0	425.0
Dec	433.8	428.4	435.0	429.0

PLATINUM 50 troy oz; $/troy oz.

	Close	Previous	High/Low	
Nov	529.3	526.2	0	0
Jan	535.3	530.6	537.5	530.1
Apr	540.4	535.9	542.5	536.0
Jul	546.2	542.2	548.0	545.0
Oct	553.7	549.2	553.0	550.5

SILVER 5,000 troy oz; cents/troy oz.

	Close	Previous	High/Low	
Nov	583.4	568.8	570.0	570.0
Dec	584.5	570.3	585.0	569.0
Jan	588.1	573.4	0	0
Mar	597.7	583.4	598.5	582.0
May	606.2	591.8	608.0	590.0
Jul	614.7	600.3	615.0	601.0
Sep	623.4	609.0	615.0	608.5
Dec	635.7	621.1	631.0	621.0
Jan	639.3	624.7	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)			
Nov 20	Nov 17	mnth ago	yr ago
1852.8	1851.0	1851.9	1842.7

DOW JONES (Base: Dec. 31 1974 = 100)				
Spot	129.59	130.46	131.84	132.04
Futures	131.11	131.81	129.49	136.14

HIGH GRADE COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
Nov	111.20	108.00	0	0
Dec	111.60	108.90	111.80	108.60
Jan	109.20	107.40	109.20	108.00
Feb	108.00	106.50	0	0
Mar	106.80	105.40	106.80	105.20
Apr	105.80	104.00	0	0
May	105.30	104.00	105.50	104.80
Jul	104.60	103.75	0	0
Sep	104.00	103.60	104.90	104.20

CRUDE OIL (Light) 42,000 US galls $/barrel

	Latest	Previous	High/Low	
Jan	20.02	19.89	20.09	19.93
Feb	19.84	19.63	19.89	19.76
Mar	19.65	19.46	19.69	19.58
Apr	19.46	19.30	19.51	19.40
May	19.30	19.15	19.36	19.26
Jun	19.16	19.02	19.20	19.12
Jul	18.99	18.85	19.05	18.96
Aug	18.85	18.74	18.90	18.84
Sep	18.70	18.63	18.78	18.70
Oct	18.61	18.50	18.70	18.61

HEATING OIL 42,000 US galls, cents/US galls

	Latest	Previous	High/Low	
Dec	6010	6008	6030	5960
Jan	5865	5873	5895	5840
Feb	5630	5643	5660	5610
Mar	5475	5410	5415	5375
Apr	5240	5240	5245	5225
May	5160	5134	5140	5100
Jun	5095	5103	5100	5095
Jul	5135	5153	5145	5100
Aug	5219	5243	5230	5210

COCOA 10 tonnes; $/tonnes

	Close	Previous	High/Low	
Dec	938	933	948	926
Mar	967	964	968	957
May	982	984	976	970
Jul	979	978	984	974
Sep	995	995	995	977
Dec	1002	1007	1016	1000
Mar	1031	1036	1036	1025

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	72.70	72.70	73.75	72.20
Mar	75.90	76.16	76.85	75.00
May	78.22	78.58	78.90	77.50
Jul	80.35	80.65	80.85	80.05
Sep	82.13	82.76	82.90	82.00
Dec	85.91	85.16	85.95	85.00
Mar	87.75	88.00	g	g

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	14.85	14.73	g	g
Mar	14.89	15.07	15.17	14.85
May	14.68	14.84	14.90	14.65
Jul	14.44	14.59	14.65	14.40
Oct	14.06	14.20	14.26	14.05
Mar	13.41	13.55	13.59	13.40

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Dec	70.35	70.58	70.90	69.87
Mar	72.80	73.20	73.40	72.35
May	73.40	74.00	74.20	73.20
Oct	68.75	68.90	68.75	68.40
Dec	65.90	65.90	66.00	65.40
Mar	66.40	66.90	66.70	66.40

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	125.00	126.85	127.10	124.75
Mar	124.05	125.45	125.60	124.00
May	124.10	124.85	125.00	124.00
Jul	124.10	124.50	0	0
Sep	123.85	124.50	0	0
Nov	123.00	124.60	0	0
Mar	123.80	124.50	0	0

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jan	565/6	564/4	566/0	562/4
Mar	599/0	597/6	600/2	595/4
May	610/0	609/4	612/0	606/6
Jul	616/4	617/4	620/4	615/2
Aug	619/2	618/4	621/4	616/4
Sep	609/0	608/0	610/4	606/0
Nov	609/4	575/2	609/4	0
Jan	616/0	616/0	616/0	616/0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Dec	19.32	19.44	19.53	19.31
Jan	19.55	19.67	19.74	19.54
Mar	20.01	20.11	20.17	19.97
May	20.36	20.48	20.51	20.34
Jul	20.60	20.75	20.80	20.65
Aug	20.68	20.80	20.75	20.65
Sep	20.60	20.85	20.85	20.69
Oct	20.80	20.85	20.85	20.80

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Dec	186.2	185.5	186.4	186.1
Jan	185.4	185.1	185.6	184.6
Mar	184.3	184.3	184.8	183.5
May	183.3	183.7	183.5	182.4
Jul	182.5	182.0	182.5	182.5
Aug	182.3	182.2	182.5	181.8
Sep	182.2	182.2	182.5	181.7

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	236/0	237/2	236/4	234/4
Mar	245/0	246/0	245/6	243/6
May	249/0	249/2	247/2	245/4
Jul	250/6	250/6	250/6	248/6
Sep	244/0	244/2	244/6	243/6
Dec	242/0	241/6	242/0	241/0
Mar	249/0	249/0	249/0	

WHEAT 5,000 bu min; cents/60lb-bushel

	Close	Previous	High/Low	
Dec	409/2	410/6	410/0	407/4
Mar	412/2	413/6	413/0	410/4
May	393/4	394/6	395/6	392/2
Jul	363/4	364/2	365/0	362/0
Sep	368/0	368/0	370/0	367/6
Dec	379/0	379/4	379/0	378/4

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	75.70	75.22	75.72	75.40
Feb	74.82	74.35	74.87	74.40
Apr	74.35	73.85	74.45	73.92
Jun	71.67	71.17	71.70	71.27
Aug	69.67	69.40	69.95	69.55
Oct	69.32	68.92	69.40	69.90

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Dec	49.97	49.47	50.00	49.10
Feb	50.82	50.15	50.75	49.70
Apr	46.17	45.70	46.27	45.45
Jun	49.82	49.47	49.85	49.12
Jul	50.07	49.72	50.20	49.47
Aug	48.95	48.72	48.97	48.40
Oct	44.05	44.05	g	43.00
Dec	45.50	45.35	45.50	45.20

PORK BELLIES 40,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	63.05	62.90	63.70	61.85
Mar	62.57	62.37	63.05	61.35
May	62.10	61.75	62.45	60.90
Jul	59.32	59.30	60.30	59.00
Aug	57.52	57.30	58.47	57.20

LONDON STOCK EXCHANGE

Equities await the trade numbers

INCREASING indications of a two-way pull between overseas and domestic investors left the UK stock market with a narrow improvement yesterday after a recovery from an initial fall. Foreign investors, while still unsettled by the weakness of sterling, made little appearance in the London equity sector and the market hung fire as it waited for tomorrow's announcement of the UK trade figures for last month.

The equity sector edged higher at the close when sterling was above the day's low against the German mark and London was poised for hints on the pricing of the £5bn plus share issue in Britain's water companies, details of which are expected before the close of today's stock market.

At its final reading of 2,185.1, the FT-SE index showed a net rise on the day of 2 points, having recouped a 12 point fall suffered at the market opening as Wall Street's overnight setback aggravated London's worries about the near term outlook for international equities in an uncertain global market.

Equity turnover remained thin, fuelling concerns over the outlook for employment in City trading firms. With trading volumes now persistently low, the problem for securities traders is one of inadequate return on capital rather than simply of covering day-to-day costs. Yesterday's Seaq volume of 350.6m, against 364.9m on Monday, was discouraging.

Once again much of the tone was set by the stock futures market where the FT-SE December contract fell sharply, closing at a discount of around 12 points. The March contract, however, showed a 30 point premium.

A significant bruise to market confidence was the announcement by Tarmac, the UK's largest housebuilder, that this year's profits could be substantially down. This gave further confirmation to fears that UK corporate profits are beginning to reflect the economic slowdown. A significant indication of currency worries came from renewed activity in gold shares in London as the bullion price moved above $400 an ounce. Dealers reported a two-way market for gold shares in London, with buyers coming from the US and Europe and UK marketmakers jobbing into the Johannesburg market.

Attention remained focused on Thursday's news on the UK trade front. While doubts were expressed over bearish forecasts that the monthly current account deficit might rise as high as £2bn, from £1.6bn in September, uncertainty ran high. Bad trade news could mean a fall in sterling, or even possibly another increase in UK base rates. But one US house was predicting an October deficit of only £1.3bn yesterday. Any figure in this area could significantly ease the equity market's worries over the near term outlook for foreign investment in London.

Account Dealing Dates

First Dealings:	Nov 13	Nov 27	Dec 11
Option Declarations:	Nov 23	Dec 7	Dec 21
Last Dealings:	Nov 24	Dec 8	Dec 22
Account Day:	Dec 4	Dec 18	Jan 8

New time dealings may take place from 9.00 am two business days earlier

FINANCIAL TIMES STOCK INDICES

	Nov 21	Nov 20	Nov 17	Nov 16	Nov 15	Year Ago	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs	83.50	83.50	83.71	84.12	84.29	88.29	89.29 (8/2)	83.50 (20/11)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	93.13	93.29	93.33	93.54	93.58	97.00	99.59 (15/3)	93.20 (19/10)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1731.9	1734.1	1789.3	1759.2	1759.4	1487.3	2008.5 (5/9)	1447.8 (3/1)	2008.6 (5/9/89)	49.4 (26/6/40)
Gold Mines	282.8	274.1	265.6	264.6	273.2	182.7	282.8 (21/11)	154.7 (17/2)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2185.1	2183.1	2221.4	2209.8	2203.4	1821.3	2426.0 (5/9)	1782.8 (3/1)	2443.4 (16/7/87)	986.9 (23/7/84)
Ord. Div. Yield	4.82	4.82	4.73	4.75	4.73	4.78				
Earning Yld %(full)	11.55	11.54	11.33	11.38	11.34	11.98				
P/E Ratio(Net)(*)	10.46	10.46	10.66	10.61	10.65	10.09				
SEAQ Bargains(5pm)	21,524	24,493	22,417	21,962	21,046	21,457				
Equity Turnover(£m)†	-	664.19	648.31	1129.73	571.91	935.12				
Equity Bargains†	-	23,316	22,276	20,716	21,338	23,729				
Shares Traded (ml)†	-	318.8	304.0	384.2	275.8	317.0				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55. Basis 1000 FT-SE 100 31/12/83. ◎ Nil 10.36

Ordinary Share Index, Hourly changes Day's High 1731.8 Day's Low 1724.5

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1726.2	1727.3	1730.9	1727.1	1728.3	1727.7	1728.0	1729.0

FT-SE, Hourly changes Day's High 2185.1 Day's Low 2171.0

Open	10 a.m.	11 a.m.	12 p.m.	1 p.m.	2 p.m.	3 p.m.	4 p.m.
2172.5	2175.1	2180.3	2175.0	2177.3	2177.4	2178.1	2179.8

GILT EDGED ACTIVITY

Indices*	Nov 20	Nov 17
Gilt Edged Bargains	86.4	81.0
5-Day average	82.5	83.2

*SE Activity 1974. †Excluding intra-market business & Overseas turnover. Calculation of the FT Indices of daily Equity Bargains and Equity Value and of the five-day averages of Equity Bargains and Equity Value, was discontinued on July 31. Closing values for July 28 available on request.
London report and latest Share Index: Tel. 0898 123001.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
ASDA Group	3,200	129	-1	Courtaulds	1,400	343	-3	LASMO	445	518	+3	Saatchi & Saatchi	1,000	295	-7
Abbey National	4,400	155	+½	Dalgety	430	371	-2	Lonrho	2,800	266	+7	Sainsbury	1,200	251	
Allied-Lyons	2,200	468	+4	Dixons	904	104	+1	Lucas	270	565	-7	Scott & Newcastle	415	347	+2
Amstrad	1,700	40	-2	Eng. China Clays	764	381	+2	MB Group	713	177	-5	Sears	1,000	102	-1
Argyll Group	1,600	296	-2	Enterprise Oil	527	616	-4	MEPC	195	491	+2	Sedgwick	465	278	-1
Ass. Brit. Foods	292	396		Fisons	538	327	+2	Marks & Spencer	1,900	191	+5	Shell Transport	1,200	429	-½
BAA	5,300	349	-3	General Accident	242	1043	+8	Maxwell Comm.	1,600	223		Siebe	79	427	-1
BAT Inds.	2,200	782	+5	General Elect.	4,000	220	-1	Mecca Leisure	124	150		Slough Ests	68	336	
BET	2,100	255	-6	Glaxo	853	1444	-9	Midland Bank	304	331	+1	Smith & Nephew	2,300	133	-½
BICC	640	430	-5	Globe Inv.	637	185	+1½	NatWest Bank	2,400	325	-1	SmithKline Beecham	345	541	+2
BOC	336	498		Glynwed Int.	1,200	242	-2	Next	2,400	95		Smiths Industries	225	356	-7
BPB Inds.	1,500	224	-6	Granada	585	321	+1	Northern Foods	30	295	-2	Standard Chartered	85	513	+3
BTR	805	413	-2	Grand Met.	1,800	530	-1	Pearl	1,975	690		Storehouse	1,800	113	+1
Barclays	1,300	532	-1	GUS A	313	1007	+7	Pearson	92	715		Sun Alliance	1,000	293½	+3½
Bass	371	960	-3	GRE	2,300	213		P & O	1,400	585	-12	T & N	32	175	-2
Blue Circle	424	215	-3	GKN	256	379	-1	Pilkington	2,000	225	-2½	TI Group	453	435	-4
Boots	1,100	259	-3	Guinness	1,600	587	+8	Polly Peck Intl.	1,300	368	+5	TSB	2,100	114	+3
Brit. & Comm.	832	198	-1	Hammerson 'A'	6	770	+4	Prudential	3,100	195	+4	Tarmac	10,900	211	-26
Brit. Aerospace	874	584		Hanson	4,500	216½	-½	RHM	1,000	424	+1	Tate & Lyle	493	258	+1
British Airways	4,300	201½		Harrisons & Cros.	829	145	-1	RMC	734	647	-6	Taylor Woodrow	663	257	-3
British Gas	4,700	201	+2	Hawker Siddeley	116	617	+1	RTZ	1,700	525	-3	Tesco	4,200	187	-2
British Land	399	303		Hillsdown Hldgs.	2,100	254	-4	Racal	5,600	239	+3	Thorn EMI	110	733	+3
BP	2,100	300½	+2½	[illegible]	563	204	-3	Rank Org.	1,500	843	-5	Trafalgar House	1,000	326	-5
British Steel	3,200	126½		ICI	2,000	1056	+7	Reckitt & Colman	357	1181	+2	Trusthouse Forte	2,900	277	-2
British Telecom	4,600	266½	+1½	Inchcape	413	254	-3	Redland	648	518		Ultramar	749	328	-1
Burmah Oil	429	654	-6	Jaguar	315	833½		Reed International	706	401	+4	Unilever	1,300	650	-6
Burton	1,800	175		Kingfisher	558	272	+6	Reuters	5,900	912	+10	United Biscuits	677	349	-3
Cable & Wireless	3,700	491	+4	Ladbroke	1,700	295	-2	Rolls Royce	2,200	160½	-1½	Utd. Newspapers	649	450	-3
Cadbury Schweppes	1,600	334	-4	Land Securities	343	503		[illegible]	152	640	+1	Wellcome	348	706	+5
Carlton Comms.	101	818	-2	Laporte	280	464	+6	Royal Bk of Scotland	653	183	-2	Whitbread 'A'	502	369	+7
Commercial Union	502	443	+3	Legal & General	990	367	-3	Royal Insurance	1,000	475	+5	Williams Hldgs.	893	225	+3
Cookson	1,400	251	-3	Lloyds Bank	431	417	-1	STC	1,600	275	+6	Wimpey	1,000	225	-4

Tarmac unsettles builders

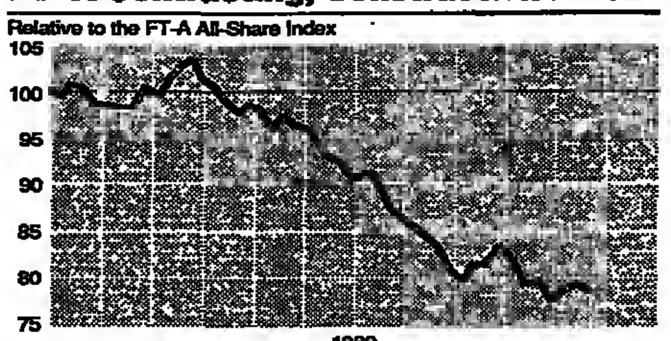
Tarmac, the UK's biggest private housebuilder and one of the core holdings of funds specialising in the UK construction industry, shocked the stock market by announcing that its profits for 1989 "will be lower than the previous year," a warning that saw Tarmac's share price fall steeply, as building sector analysts moved to lower their profits forecasts for the group. Tarmac blamed its troubles on high interest rates, which put pressure on its housing division.

Last year Tarmac achieved pre-tax profits of £393m, up from £265.4m in 1987 and only a couple of months ago revealed that interim profits were £154m against £125.2m. At the halfway stage the group warned of changing conditions in housebuilding.

Mr Robert Lister at BZW cut his current year forecast back to £370m from around £435m and that for next year to £330m. The BZW analyst said that up until now the group had a profits and dividend record "second to none," but that now there could well be a problem – "only eight weeks ago the company said things were fine."

At Panmure Gordon Mr Ian Macgregor redued his forecast of current year profits to £373 but maintained that the group is "the best run in the industry - at this level the shares look extremely good value."

Tarmac shares dropped to 210p before steadying and closing a net 26 lower at 211p; turnover came out at 11m, well above normal levels.



Reuters block sold

A single large trade of 4.53m Reuters shares – at least 10 times the typical daily turnover – caught marketmakers' attention. Some suggested that the Daily Telegraph had sold its stake. The Telegraph said: "We are not in a position to comment."

The apparent absence of double-counting of the deal on the Seaq network indicated that a marketmaker had taken the stock on his book. Reuters shares rose 10 to 912p despite this evidence of an overhang in the market. "The holder probably called the price up - an extra 100,000 doesn't make much difference when you've got 4½m, and the price rise looks good," said one marketmaker.

Analysts were more cautious but said that the size of the trade was about the size of the Telegraph's holding. They added that the Telegraph had good reason to want to raise cash because its owner, Mr Conrad Black, the Canadian media entrepreneur, is widely thought to be keen on increasing his more-than-8 per cent stake in United Newspapers, which owns the Daily Express, with a minimum of bank borrowings.

Interim results from SG Warburg, the merchant bank, came out well above the market's best expectations and saw the shares marked up to 444p before profit-taking lowered the price to a closing level of 437p, a net 2 higher on the day. "The figures shows what a quality house can do in markets like these," said Mr Steve Thorn at UBS Phillips & Drew. Mr Thorn has pencilled in £170m pre-tax for the full year.

The big changes at the bank's retail operations left TSB shares 3 higher at 114p although turnover of 2.1m left much to be desired.

Suggestions of a downgrading, after several days of rises, for Unilever from one of the larger securities houses undermined the shares. They fell back 13 before staging a small recovery with the market to close 6 off at 650p.

Of stocks usually affected by the gold price, only Lonrho responded to the metal's breaching of the $400 an ounce barrier during the day. The shares advanced 7 to 266p. The other two in the FTSE 100 are RTZ, which recovered from a low of 520p to close 3 off at 525, and Hanson, which shaded ½ to 216½. The latter is a gold stock by virtue of its acquisition of Consolidated Gold Fields in July this year, and whether or not is is classed as a gold stock, said dealers, is largely a matter of whim.

A Paris court decision in favour of the chairman of LVMH, the French luxury goods company in which Guinness has a 24 per cent stake, helped the latter recover some of the ground recently lost with a rise of 8 to 587p. LVMH has a 12 per cent stake in Guinness and the two companies have indicated that they want the crossholding to be symmetrical. Analysts say that both parties would like the legal wrangle within LVMH to be resolved before any buying of Guinness shares by LVMH takes place.

The Tarmac news upset the rest of the building sector, *especially among the big UK housebuilders*. Barratt dropped 5 to 188p, having been as low as 166p early on, while Taylor Woodrow dipped to 254p before closing a net 5 off at 257p. George Wimpey touched 220p but later picked up to end a busy session 4 off at 226p.

Building materials groups were hit first thing but later rallied. RMC fell away to 642p before the realisation that the *group earns much of its profits* from overseas, particularly in West Germany, caused a flurry of buying to leave the shares only 6 down at 647p.

John Menzies fell 7 to 346p as marketmakers heard talk of a downgrading from a leading agency broker.

Rolls-Royce retreated 3 to 159p, as Hoare Govett joined the list of securities houses shaving profits expectations. Hoare Govett now predicts full year profits at Rolls of £213m from its previous forecast of £233m. Mr Mike Tamplin at Hoare Govett said he was trimming his forecast because, "the strike action at Hillingdon will have an impact on the final assembly of engines at the Derby plant."

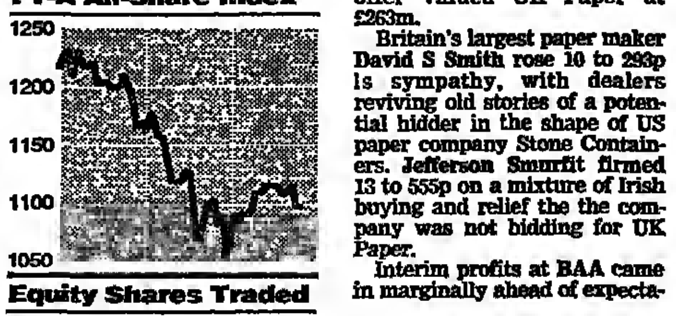
Smith Industries, fell 7 to 256p, though British Aerospace having come back 4 was said to have been helped by news of further aircraft orders and ended the day unchanged at 514p.

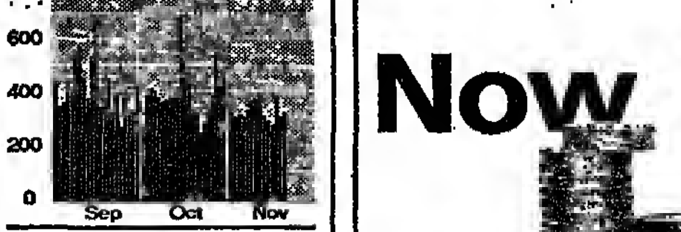
An unexceptional 3.2m British Steel shares were traded as the company held e presentation in the US. The price remained unchanged at 127p.

Fading hopes of a bid from Continental AG, the West German tyre maker which has a 13 per cent stake in Kwik-Fit caused the the shares to go lower, easing 5 to 120p. A market maker said: "Interest in Kwik-Fit has now died. Buying has dried up and no one is interested even at these levels." An analyst however said: "I think on fundamentals the price is still too high."

Ranks Hovis Macdougall were 4 lower at one stage before staging a late recovery to finish net a penny up at 424p. The company reveals full year figures today and the market range is £170m to £178m.

The lowering of profits expectations by a number of securities houses last week continued to affect Cookson. A hig huyer was said to have been in the market earlier in the day but had disappeared by mid afternoon. The shares closed down 8, at 246p.





The market continued to expect a higher offer for Hestair, the personnel services and consumer products group, for which Adia, the Swiss personnel company made a £167m bid on Monday. The shares rose another 7 to 298p.

AAH gained 8 to close at 396p. Mr Charles Pick at Nomura Research Institnte said: "In the current period of uncertainity, a company in health care, which is recession proof will do well. The prospect of serious downgrades arising with AAH deserves a quote of at least 50-1 against and the shares are likely to retain a loyal fan club."

AMI Healthcare rose another 10 to end at 401p as the market cootinued to await a bid following Monday's announcement that its US parent company wanted to dispose of its 65 per cent share holding.

Shares in Trafalgar House slipped 5 to 326p on the back of a profits warning at Tarmac, and the poor outlook for tha construction sector. There was talk that Trafalgar, which has a heavy involvement in construction, may also be affected.

A profits increase, well above market expectations helped Cosalt, the Grimshy based ships' chandlery to caravans group, to rise. The company reported a 59 per cent increase in full year profits from £3.17m last year to £5.04m.

USM-qnoted radio station Invicta slipped 7 to 188p as Southern Radio said talks with Invicta on a merger had ended.

The agreed 330p-a-share bid for UK Paper by Metsä-Serla, a Finnish forest products group, left the former 36 better at 332p. UK Paper had been floated in March 1988 at 135p and the company had itself been bought by its management from Bowater for £38m in *September 1986*. Yesterday's offer valued UK Paper at £263m.

Britain's largest paper maker David S Smith rose 10 to 293p ls sympathy, with dealers reviving old stories of a potential hidder in the shape of US paper company Stone Containers. Jefferson Smurfit firmed 13 to 555p on a mixture of Irish buying and relief the the company was not bidding for UK Paper.

Interim profits at BAA came in marginally ahead of expectations, but the shares were depressed hy Government assurances over the security of tha golden share designed to forestall takeover bids. There has been an element of bid premium in the stock in recent days as a result of the 5¼ per cent *stake in BAA held by* Bermnda-hased conglomerate, ADT, and the waiving last month of a golden share in Jaguar. BAA finished 3 down at 349p, having been as low as 346p, on good turnover of 5.3m shares.

The property sector was alive with persistent stories that a hid may well materialise for Rosehaugh, with Canadian group Olympia and York again *said* hy *speculators to* be favourite to launch an offer for the UK group. The takeover stpries drove the Rosehaugh share price sharply higher to touch a level of 565p before profit-taking cut the price to a close of 533p.

Dealers contiaued to take the view that the hid stories "have been around for some considerable *time* and will probably continue to do so." Rosehangh is scheduled to announce preliminary figures tomorrow wiuth a net asset value of 730p a share being talked of in the market.

Among other firm spots in properties, Greycoat added 5 at 448p and Laing Properties 9 at 469p.

An early story that ICI was about to place its near 25 per *cent stake* in Enterprise Oil to raise in excess of £700m came to nothing and Enterprise Oil shares settled a net 4 off at 616p after 613p with turnover coming out at an unexciting 527,000 shares.

The oil leaders moved narrowly. BP edged up 2¼ to 300¼p albeit in thin trading of only 2.1m shares. In the second-liners Kelt Energy, down 3¼ on Monday, dropped to a year's low of 26p, before closing a further 3 off at 27½p.

Monument Oil & Gas slipped 1¼ to 28¼p after announcing a £62.6m rights issue to fund the purchase of Renown Energy, jointly owned by Consolidated Gold fields and Kleinwort Benson.

■ Other market statistics, including FT-Actuaries Share index and London Traded Options, Page 27

NEW HIGHS AND LOWS FOR 1989

NEW HIGHS (48).
BRITISH FUNDS (2) FOREIGN BONDS (3) CANADIANS (3) INDUSTRIALS (2) ISS-Int Serv. Sys. B, Jardine, INSURANCE (1) PAPERS (1) TRUSTS (12) OILS (1) OVERSEAS TRADERS (1) MINES (22).
NEW LOWS (88).
BRITISH FUNDS (5) INT.BANK & O'SEAS GOVT. STLG. ISSUES (1) CORPORATION LOANS (1) AMERICANS (4) BREWERS (1) BUILDINGS (2) CHEMICALS (1) STORES (3) ELECTRICALS (4) ENGINEERING (6) FOODS (3) INDUSTRIALS (18) Allied Part., BBA, Do. 6.7pc Cm. Pf., Bowater, Brown & Tawse, Charterhall, Coloroll, Cookson, Dauphin, Diploma, Elsco, Erskine House Grp., Forwell Grp., Kleen-E-Ze, Scot. Hert. Tst., Select. Appts., LEISURE (2) MOTORS (2) NEWSPAPERS (1) PAPERS (2) PROPERTY (4) TEXTILES (5) TRANSPORT (3) TRUSTS (5) OILS (9) THIRD MARKET (1).

APPOINTMENTS

Senior posts at Storehouse

■ Mr Pat Diamond, chief executive, retail services division, has been appointed deputy chief executive of BhS, part of STOREHOUSE, retaining his group distribution responsibilities. He will also retain responsibility for Storecard, the group's credit card company, until its sale to Yorkshire Bank is completed et the end of February next year. The group's continuing interest in Storecard and its marketing database then becomes the responsibility of Mr John Braddell, chief executive, marketing and design. Mr Bob Mackenzie, who joined Storehouse this month as group finance director designate, assumes group responsibility for information systems and technology.

■ ASTEC EUROPE has appointed Mr John Franks as sales director. He was European sales manager.

■ Following the acquisition of ARC Construction from Hanson for £6.3m by a management-led consortium, and its renaming as AMEY CONSTRUCTION, the following have been appointed to the board. Mr Neil Ashley becomes executive chairman; Mr Richard Douglas, commercial director; and Mr David Cawthorne, finance director - all from Balfour Beatty. Mr Eddie King, managing director, Mr Mike Kitchenham and Mr Mark Evelyn-Wood remain on the board from ARC Construction. Mr John Snook has been appointed a non-executive director. He is with Close Brothers.

■ BM GROUP has appointed Mr Peter Goss as managing director of subsidiary BM Plant. Ha was sales director, and succeeds Mr Graham Hall who remains executive chairman.

■ Mr Mark Knight and Mr Roger Fennings have been appointed joint managing directors of Perspective Public Relations, part of the OMNICOM GROUP. Mr Knight was public relations manager at the *Financial Times*, and Mr Fennings was public relations director at the Hilton International group.

CAMBRIDGE COMPUTER, Sir Clive Sinclair's company, has appointed Mr Chris Wheeler *(above)* as managing director. He was a managing director with Mars, and previously was with Texas Instruments.

BA man joins Virgin Atlantic

■ VIRGIN ATLANTIC AIRWAYS has appointed Mr Mike Batt as executive director responsible for commercial operations. He joins from British Airways where, as head of central marketing, he re-launched Club World, Club Europe, and the First Class product.

■ Mr Michael Pacitti has joined MERRILL LYNCH's European research department in London as European analyst covering industrial holding companies. He joins from a similar post with UBS Phillips and Drew.

■ EMAP has appointed Mr David Metcalfe as managing director of Trade Promotion Services, part of the exhibition division.

■ CECIL M. YUILL INVESTMENTS, Hartlepool, has appointed as directors Mr Frank Carr, Mr Richard Harbottle and Mrs Patricia Wilson.

Mr Stephen Carter *(above)* has been appointed chief inspector (designate) at the CO-OPERATIVE BANK, Manchester. He will succeed Mr Hiley Shepherd who retires at the end of the year. Mr Carter was financial services davelopment manager, Wang Computers (UK).

■ LANDIS & GYR BUILDING CONTROL (UK) has appointed Mr Patrick Bateman as managing director. He was UK director with Satchwell Control Systems.

■ Mr Martin Wright has been appointed director of international operations/acquisitions at Maxwell Consumer Publishing & Communications. He was acquisitions director of magazines and exhibitions worldwide with parent company MAXWELL COMMUNICATION CORPORATION.

FT UNIT TRUST INFORMATION SERVICE

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AUTHORISED UNIT TRUSTS

Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers. Other explanatory notes contained in last column of the FT Unit Trust Information pages.

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	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Wellington Fund Mngrs Ltd (1200)F						
2, London Bridge, SE1 01-407 4408						
Wellington Income	5¼	133.9	135.4xd	144.8	-1.1	5.08
Wellington Growth	3¼	219.7	221.4xd	235.7	-0.1	1.35
Wessex Asset Management (1330)F						
1 Richmond Hill, Bournemouth BH2 6HW 0202 299432						
Wessex Uk Grwth	4¼	104 8	100.1	112.6	-1.1	2.97
Whittingdale Unit Tst Mgmt Ltd						
2 Honey Lane, London EC2V 8BT 01-606 3132						
Challenger § F	2¼	60 81	60.81xd	62.33	-0.20	0.00
Short Dtd Gilt ♦ F	1¼	01 84	01.84	83 03	-0.03	7.17
U.S Govmt Bond ♦ F	1¼	5.5764	.5764xd	.5840	[illegible]	0.00
Willbro Financial Services Ltd (0905)F						
PO Box 515 Austin Friars, London EC2 01-588 7511						
Aust Friars W'wide	5	189.1	193.0	205.3	.....	2.57
Windsor Trust Mngrs Ltd (1200)F						
81 Kingsway, London WC2B 6SD 01-405 8331						
Convtbl & Equity	5	55.39	58 64xd	62.38	-0.2	7.56
European	5	76.22	76.57	81 45	+0.85	0.10
Far Eastern	5	64 49	69 03	73.43	-0.37	0 64
Growth Inc	5	79 11	78.69	03 70	-0.89	1.62
Growth Acc	5	75.19	70 76	83 76	-0.87	1.62
Income Inc	5	73 85	76.24	81.10	-0.57	5.24
Income Acc	5	73 95	76.34	81.21	-0.57	5.20
Property Share	5	47.21	47.21	50.32	-0.71	1.11
Smaller Co s	5	40.70	46.76	51.05	+0.22	1.83
Nth American	5	63.96	63.98	68.42	-1.39	1.59
International	5	48.84	48.843	52.22	-0.22	1.41
Asset Value	5	155.27	155.27	166.05	-1.63	4.43
Wright Seligman Fund Mngrs Ltd (1700)F						
11 Blomfield St, London EC2M 7AY 01-588 0592						
Intl Growth	5	112.03	112.03	117.93	.....	3.98
UK Growth	5	92.66	92.66	97.54	.....	3.08
UK Income	5	95 95	95 95	101.00	.....	4.46
Weekly dealing day Tuesday						
The Yorkshire Unit Tst Mngrs Ltd (1100)F						
Woodsome Pk, Fenay Bdge, Huddersfield 0484 602250						
Yorkshire General	5¼	59 69	57.01	61.64	-0.4	2.90
YUTM Bk Eqty Inc Tst	5¼	54.80	56.71	60.33	-0.43	4 91
YUTM Intl Grth Tst	5¼	56.59	56.59xd	60.38	+0.46	0.71

OTHER UK UNIT TRUSTS

INSURANCES

Continued on next page

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	Bid Price	Offer Price	+ or −	Yield Gross
Premium Life Assurance Co Ltd				
37-39, Perrymount Road, Haywards Heath 0444 458721				
American	122.0	129.0	−1.0	–
Building Soc. Fd.	177.0	187.0	----	–
Balanced	277.0	292.0	----	–
European	189.0	140.0	----	–
GT Managed	182.0	192.0	−1.0	–
Gartmore Mngd	127.0	134.0	−1.0	–
German	152.0	160.0	+1.0	–
Gilt	172.0	182.0	----	–
Global	48.0	51.0	----	–
High Inc.	106.0	112.0	----	–
International Equity	194.0	205.0	----	–
Japan	201.0	296.0	+1.0	–
Managed	56.0	59.0	----	–
Property	298.0	314.0	----	–
R. W. Imperial Gold	146.0	154.0	----	–
UK Equity	314.0	331.0	----	–
Pension Funds				
American	153.0	162.0	----	–
Building Soc. Fd.	180.0	190.0	----	–
Balanced	218.0	230.0	----	–
European	189.0	140.0	----	–
German	132.0	139.0	----	–
Gilt	153.0	162.0	----	–
International Equity	141.0	149.0	----	–
Japan	145.0	153.0	----	–
Managed	62.0	66.0	----	–
Property	229.0	240.0	----	–
UK Equity	301.0	317.0	−1.0	–
Professional Life Assurance Co Ltd				
Frobisher Hse, Nelson Gate, Southampton 0703 232323				
Pensions Managed Fund	92.99	98.29	----	–
Pensions Cash Fund	81.91	86.22	----	–
Prolific Life & Pensions Ltd				
Stramongate, Kendall, Cumbria LA9 4BE 0539 733733				
Managed Fund see Balanced Growth Managed Fund				
Life Funds				
Balanced Grth Mngd	596.8	628.9	−2.8	–
Adventurous Mngd	129.7	136.7	−1.0	–
Secure Mngd	108.7	114.6	−0.4	–

OFFSHORE AND OVERSEAS

GUERNSEY (SIB RECOGNISED)

MANAGEMENT SERVICES

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

FT UNIT TRUST INFORMATION SERVICE

[illegible]

ISLE OF MAN (**)

[illegible]

LUXEMBOURG (**)

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

OFFSHORE INSURANCES

[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
133	124	Treas 2pc IL '90(84.b)	133	+⅛	2.09	9.98
99	98	Exch 11pc 1990	99	.....	11.10	14.52
101	99	Exch. 12½pc 1990	99	.....	12.59	14.54
96¼	91	Treas. 3pc 1990	96	+	3.12	11.87
97¾	95	Treas 8¼pc 1987-90	97¼xd	.....	0.49	13.80
98	95¼	Treas. 8pc Cr 1990	96½	.....	8.29	13.74
98	96	Treas. 10pcCv 1990	96	.....	10.32	13.69
93	87	Exch 2½pc 1990	92	.....	2.69	10.24
101	98	Treas 11¾pc 1991	98	.....	11.95	13.35
93¼	89	Funding 5¾pc '87-91	92¾	.....	6.19	11.58
90	86	Treas. 3pc 1991	90	.....	3.32	10.22
100	95½	Treas 10pc Cv '91	96	+	10.40	12.67
101	96	Exch. 11pc 1991	97	+	11.28	12.49
94	91	Treas. 8pc 1991	92½xd	−	8.68	12.44
106	100	Treas 12¾pc 1992	101	−	12.61	12.10
99½	95	Treas 10pc 1992	95	.....	10.43	12.11
94	90	Treas. 8pc 1992	91	+	8.73	12.12
100¼	96	Treas 10½pc Cv 1992	96⅞	.....	10.83	11.99
85	82¼	Treas. 3pc 1992	84xd	.....	3.55	10.06
105	100	Exch. 12¼pc '92	100	.....	12.18	11.97
109¼	103	Exch 13½pc 1992	103	−	12.99	11.91
94	90	Treas 8¼pc 1993	90	+	9.07	11.67
100	95	Treas 10pc 1993	95	+	10.44	11.53
108¼	102½	Treas 12½pc 1993	102	−	12.18	11.57
88	84	Funding 6pc 1993	86	.....	6.93	10.34
113¼	107	Treas 13¾pc 1993	107xd	−	12.83	11.43
94	89	Treas. 8½pc 1994	90	.....	9.42	11.47
117	110	Treas 14½pc 1994	110	−	13.10	11.26
113	106	Exch 13½pc 1994	107	−	12.60	11.38
100	95	Treas. 10pc Ln. 1994	95xd	−	10.45	11.24
110¼	103	Exch. 12½pc 1994	103	−	12.02	11.35
96	91	Treas 9pc 1994	91	−	9.80	11.18

Five to Fifteen Years

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
108	102	Treas 12pc 1995	102	−	11.70	11.30
79	72	Exch 3pc Gas 90-95	76	.....	3.93	8.45

[illegible]

Over Fifteen Years

[illegible]

BRITISH FUNDS—Contd

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
111	102	Exch.10½pc 2005	102	+	10.21	10.13
125	115	Treas. 12½pc 2003-05	115	+	10.79	10.33
90	82	Treas. 8pc 2002-06	83	+	9.60	10.07
118	109	Treas. 11¾pc 2003-07	109	+	10.69	10.34
96	87	Treas 8½pc 2007	88	+	9.64	9.92
134	123	Treas. 13½pc '04-08	123	+	10.89	10.27
101	92	Treas. 9pc 2008	92	+	9.70	9.65
93	92	Treas. 9pc 2008 B	92	+	9.70	9.85
92	83	Treas 8pc 2009	84	+	9.47	9.79
102	92	Conv 9pc Ln 2011	93	+	9.66	9.75
68	62	Treas. 5½pc 2008-12	62	+	8.80	9.53
89	81	Treas. 7¾pc 2012-15	81	+	9.49	9.71
132	119	Exch. 12pc '13-'17	120xd	+	9.96	9.78

Undated

1989 High	Low	Stock	Price £	+ or −	Yield Int.	Red.
45	40	Consols 4pc	40	+	9.89	—
40	35	War Loan 3½pc	35xd	.....	9.77	—
70	60	Conv 3½pc '61 Aft	62	.....	5.67	—
41	31	Treas. 3pc '66 Aft	32	.....	9.32	—
30¼	25	Consols 2½pc	25	.....	9.65	—
29½	25	Treas. 2½pc	25	.....	9.95	—

Index-Linked

1989 High	Low	Stock (b)	Price £	+ or −	(1)	(2)
112	103	Tr. 2pc '92(97.8)	111	+	2.89	4.09
105	94	Do. 2 '94 (102.9)	104	+	2.83	3.45
155	139	Do. 2pc '96(67.9)	154	+	2.97	3.39
130	118	Do 2½pc '01(78.3)	129	+	3.43	3.70
127	115	Do. 2½pc '03(78.8)	125	+	3.52	3.77
131	117	Do. 2pc '06(69.5)	128	+	3.56	3.75
123	110	Do. 2½pc '09(78.8)	120	+	3.56	3.74
128	114	Do. 2½pc '11(74.6)	125	+	3.50	3.73
106	95	Do. 2½pc '13(89.2)	105	+	3.54	3.70
115	101	Do. 2½pc '16(81.6)	112	+	3.51	3.66
112	100	Do. 2½pc '20(83.0)	110	+	3.49	3.59
95	84	Do. 2½pc '24(97.7)	92	+	3.42	3.54

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

Continued on next page

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

LONDON SHARE SERVICE

AMERICANS—Contd

1989 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
15⅛	847p	Hasbro Inc 50c	13⅝	–½	[illegible]	—	0.7
57½	32¼	Honeywell $1½	52⅞	+1⅛	$2.[illegible]	—	3.3
22⅝	15¼	Houston Inds	21⅝	–⅛	$2.[illegible]	—	8.7
76⅞	60⅞	IBM Corpn $1¼	63	–⅝	$4.[illegible]	—	4.9
60p	45p	Image Storage/R.Sys.Inc.	52p	.....		—	—
32½	18¼	Ingersoll-Rand $2	29⅞	+1⅛	$1.[illegible]	—	2.5
33¼	22½	Lockheed Crpn. $1	22⅞	–2½	$1.[illegible]	—	5.0
22⅝	12½	Lone Star Inds $1	12½	–1¼	$1.[illegible]	—	9.6
27⅞	17½	Louisiana Land 15c	25⅝	.....	$1.[illegible]	—	2.5
20½	11½	Lowe's 50c	18½	.....	[illegible]	—	1.6
28½	15⅛	Manuf. Hanover $1	24⅝	–⅛	$3.2[illegible]	—	8.6
22⅝	11⅛	Merrill Lynch $1	17⅝	+⅛	$1.00	—	3.7
24¼	19¼	Molex Inc.	21	+⅛	3.2c	—	—
30⅞	18¼	Morgan (JP) $2½	27⅛	–⅛	$1.66	—	3.8
28½	24¼	Morris (Philip)	25⅛	–⅛	$1.13	—	2.7
54½	36¼	NYNEX $1	51⅞	–⅛	$4.36	—	5.3
44p	16p	N'wide Legal Serv.	21p	.....		—	—
24⅞	18¼	PHH Corp.	23¼	–⅛	$1.16	—	3.2
259p	167p	Pacific Agr.	167p	–7		—	—
28¼	19	Pacificorp $3¼	27⅞	–⅛	$2.76	—	6.0
30¼	16⅞	Pacific Telesis 10c	27⅛	–½	$1.88	—	4.3
22⅞	15¼	Pall Corp. 25c	20⅞	–1	49c	—	1.5
55¼	39½	Pennzoil 83 1/3c	50½	+⅛	$3.00	—	3.8
42¼	28⅛	Quaker Oats $5	38⅛	–⅛	$1.40	—	2.3
32⅛	23⅛	Rep NY Corpn $5	30⅞	+⅛	$1.28	—	2.7
16¼	11⅛	Rockwell Int'l $1	13⅛	–⅛	78c	—	3.6
29½	22	Sears, Roebuck 75c	24⅝	–⅛	$2.00	—	5.2
37½	21⅛	Southwestern Bell $1	34¼	–½	$2.60	—	4.7
27⅞	17⅛	Sun Co. Inc. $1	24⅝	+⅛	$1.80	—	4.7
31¼	22⅛	TRW Inc. 62½c	29⅛	–⅛	$1.72	—	3.7
24⅞	14½	TW Services $5	21⅛	–⅛		—	—
40⅞	26¼	Tenneco $5	37⅛	–⅛	$3.04	—	5.2

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY AND STORES—Contd

ELECTRICALS

ENGINEERING

ENGINEERING—Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.)—Contd

INDUSTRIALS (Miscel.)—Contd.

INSURANCES

LONDON SHARE SERVICE

● Latest Share Prices are available on FT Cityline. To obtain your free Share Code Booklet ring the FT Cityline help desk on 01-925-2128

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING, ADVERTISING – Contd

[illegible]

PROPERTY

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES – Contd

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND – Contd

[illegible]

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS – Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

MINES – Contd

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

For Tullow Oil see Oils & Gas

1989 High	Low	Stock	Price	+ or –	Div Net	Cvr	Y'ld Gr's	P/E
113	60	UPL Group 10p	65	.....	2.75	1.9	5.6	12.3
150	129	Unit Group	129	.....	5.0	3.3	5.2	7.3

[illegible]

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ◆ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ## Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♣ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ¶ No par value

B.Fr. Belgian Francs. Fr. French Francs ¶¶ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p γ	86	–1
Craig & Rose £1 γ	858xd	.....
Finlay Pkg. 5p γ	64	.....
Holt (Jos) 25p γ	1343	+3

IRISH

Cap. 8½% Ln. 1991	£96¼	.....
9pc Cap Ln. 1996	£97	.....
Fin. 13% 97/02	£116	.....
Arnotts	405xd	.....
Carrol (P.J.) γ	145	+2
Hall (R. & H.)	195	–4
Helton Hldgs. γ	88	.....
IRG	238	+2
United Drug	138	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	41
Amstrad	6½
Astec (BSR)	5¾
BAT	67
BOC Grp	44
BTR	37
Barclays	40
Blue Circle	28
Boots	23
Bowaters	39
Brit Aerospace	46
British Steel	9
Brit. Telecom	22
Cadburys	31
Charter Cons.	42
Comm Union	40
Courtaulds	31
Eurotunnel	65
FKI	8
FNFC	22
Gen Accident	92
GEC	19
Glaxo	120
Grand Met	44
Guardian	39
GKN	33
Hanson	18
Hawker Sidd	55
ICI	90
Jaguar	45
Ladbroke	25
Legal & Gen	31
Lex Service	26
Lloyds Bank	31
Lucas Inds	54
Marks & Spencer	16
Midland Bk	26
Morgan Grenfell	38
Nat West Bk	23
P & O Dfd	51
Polly Peck	38
Racal Elect	28
RHM	39
Rank Org Ord	72
Reed Intnl	34
STC	23
Sears	9
SmKl. Beecham A	48
TI	38
TSB	9
Tesco	16
Thorn EMI	63
Trust Houses	23
T&N	16½
Unilever	57
Vickers	22
Wellcome	55

Property

Brit Land	27
Control Secs	5
Land Securities	45
MEPC	45
Mountleigh	13

Oils

Brit Petroleum	23
Burmah Oil	65
Charterhall	2½
Conroy Petm	9
Premier	10½
Shell	37
Tuskar Res	12
Ultramar	20½

Mines

Lonrho	23
RTZ	45

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Sterling falls to DM2.85

FURTHER INTERVENTION by the Bank of England failed to prevent sterling weakening against the D-Mark yesterday, but the pound showed a better performance against a generally weak dollar. The Japanese yen continued to lose ground to the D-Mark, but improved against the dollar.

The pound fell to its lowest D-Mark level since early March 1987, despite sales of European Currency Units by the Bank of England. The UK ceotral bank also bought sterling against the dollar, in nervous trading ahead of tomorrow's UK trade figures for October.

Sterling has fallen steadily *in the run up to the trade data*, and poor figures are already heavily discounted. This posed the question yesterday of how much further the pound will fall, with some analysts suggesting that there is potential for a partial recovery if the trade news is reasonahly encouraging. In the present mood this probably means a current account deficit of under £2bn. Mr David Deakin, economist at Nikko Bank, said that chart based targets have already been reached on the down side.

The market showed no reaction to the Government's agenda, outlined at the state opening of Parliament, or to commeots by Mrs Margaret Thatcher, the UK Prime Minister. She told MP's that the main task remains the defeat of inflation.

News on North Sea oil production is also of limited interest as far as the market is concerned at present, and it was hardly noticed that British output from the North Sea in October was above two billion barrels a day for the first time this year.

Sterling fell 1¼ pfennigs to DM2.8500, while declining to SFr2.5350 from SFr2.5450 and to FFr9.7075 from FFr9.7400. The pound rose ¼ cent to $1.5665 and was unchanged at Y225.25. *Its index fell 0.2 to 87.2.*

Public holidays in West Germany today and the US and Japan tomorrow led to a run down of volume on the foreign exchanges. In thin trading the dollar weakaned and the D-Mark remained firm.

Reaction to a rise of 0.5 per cent in October US consumer prices was muted. The figure was slightly higher than expected, but the annual inflation rate eased to 4.5 per cent from 4.7 per cent.

At the close in London the dollar had fallen to DM1.8200 from DM1.8360; to Y143.75 from Y144.45; to SFr1.6175 from SFr1.6320; and to FFr6.1975 from FFr6.2475. The dollar's index fell to 69.6 from 70.0.

The D-Mark continued to advance. It was fixed at FFr3.4066 in Paris, the highest level since February. In Milan the Bank of Italy sold dollars and D-Marks at the fixing, as the lira fell to a five-week low against the West German currency. The lira was the weakest member of the European Monetary System. In terms of the Japanese yen the D-Mark was also very firm, rising to around Y79.00 at the London close, from Y78.67 on Monday.

EURO-CURRENCY INTEREST RATES

Nov 21	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	15-14⅞	15-14⅞	15⅛-15⅛	15⅛-15⅛	15⅛-15	14¾-14⅝
US Dollar	8½-8⅜	8½-8⅜	8½-8⅜	8½-8⅜	8⅜-8¼	8⅛-8⅛
Can. Dollar	12-11¾	12⅛-11⅞	12⅛-11⅞	12⅛-11⅞	12-11¾	11½-11⅜
D. Guilder	8⅜-8¼	8⅜-8¼	8⅜-8¼	8⅜-8¼	8½-8⅜	8½-8⅜
Sw. Franc	6⅞-6⅝	7⅛-6⅞	7⅞-7⅝	7⅞-7⅝	7⅞-7⅝	7⅞-7⅝
Deutschmark	7⅞-7⅞	7⅝-7⅜	7⅝-7⅜	8⅛-8¼	8¼-8⅛	8⅜-8¼
Fr. Franc	10⅜-10⅛	10⅜-10⅛	10⅜-10⅛	10⅝-10½	10⅝-10½	10⅝-10⅜
Italian Lira	12-10	13⅛-12⅝	12⅞-12⅝	12⅞-12⅝	12⅞-12⅝	13-12⅝
S. Fr. (Fin)	9⅝-9⅜	9⅞-9⅝	9⅞-9⅝	9⅞-9⅝	9⅞-9⅝	9⅞-9⅝
B. Fr. (Con)	9⅝-9⅜	9⅝-9⅜	9⅝-9⅜	10-9⅝	10-9⅝	4⅞-9⅝
Yen	6⅛-6⅛	6⅛-6⅛	6⅞-6⅝	6⅝-6⅝	6⅝-6⅝	6⅝-6⅝
D.Krone	11⅛-11	12⅛-12⅛	12⅛-12⅛	12⅛-12⅛	11⅞-11⅞	11⅞-11⅞
Asian $Sing	8½-8⅛	8⅝-8⅛	8⅝-8⅛	8⅝-8⅛	8⅝-8⅛	8⅛-8⅛

Long term Eurodollars: two years 8⅛-8⅛ per cent; three years 8⅛-8⅛ per cent; four years 8⅛-8⅛ per cent; five years 8⅛-8½ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

£ IN NEW YORK

Nov.21	Latest	Previous Close
£ Spot	1.5675-1.5685	1.5575-1.5585
1 month	0.84-0.83pm	0.84-0.83pm
3 months	2.39-2.36pm	2.52-2.50pm
12 months	8.38-8.28pm	8.77-8.67pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Nov.21	Previous
8.30 am	87.4	87.8
9.00 am	87.3	87.7
10.00 am	87.4	87.6
11.00 am	87.5	86.4
Noon	87.6	87.6
1.00 pm	87.6	87.5
2.00 pm	87.2	87.4
3.00 pm	87.2	87.5
4.00 pm	87.2	87.5

POUND SPOT- FORWARD AGAINST THE POUND

Nov.21	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5670-1.5750	1.5660-1.5670	0.93-0.91cpm	7.05	2.57-2.54pm	6.52
Canada	1.8265-1.8365	1.8340-1.8350	0.53-0.45cpm	3.21	1.36-1.27pm	2.87
Netherlands	3.20¾-3.23¼	3.21-3.22	2-1¾cpm	7.23	5¼-5⅛pm	4.53
Belgium	59.65-60.25	59.85-59.95	31-26cpm	5.71	81-75pm	5.21
Denmark	11.04¼-11.13½	11.05¼-11.06¼	2¾-2⅛orepm	2.71	8¾-7⅞pm	2.94
Ireland	1.0735-1.0835	1.0795-1.0805	0.45-0.40pm	4.72	1.00-0.90pm	3.52
W. Germany	2.84½-2.86	2.84¼-2.85¼	1⅞-1⅝pm	7.63	4⅞-4⅝pm	6.75
Portugal	245.70-248.65	246.15-247.15	45-27cpm	1.75	9-60dis	-0.48
Spain	182.35-184.65	182.90-183.20	28-11cpm	1.02	27-12pm	0.43
Italy	2092¼-2109½	2099-2100	6-4lirepm	2.86	13-10pm	2.19
Norway	10.75-10.82	10.77¼-10.78¼	3½-3¼orepm	3.96	9½-8¾pm	3.41
France	9.68½-9.74¼	9.70¼-9.71¼	4¼-3¾cpm	4.94	10¾-10¼pm	4.38
Sweden	10.04-10.11	10.05½-10.06½	3½-2¾orepm	3.98	7¾-7¼pm	3.00
Japan	224¼-226½	224¾-225¼	1⅞-1⅝ypm	4.32	4¾-4½pm	8.32
Austria	20.02-20.16	20.07-20.10	12¼-11¼gropm	6.95	33½-30¼pm	4.34
Switzerland	2.52¼-2.54¼	2.53-2.54	1⅞-1⅝cpm	8.28	4⅝-4⅜pm	7.10
ECU	1.3940-1.4000	1.3940-1.3950	0.58-0.55cpm	4.86	1.47-1.42pm	4.14

Commercial rates taken towards the end of London trading. Belgian rate is convertible francs. Financial franc 59.85-59.95 Six-month forward dollar 4.80-4.75cpm 12 Months 8.85-8.75pm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Nov.21	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.5670-1.5750	1.5660-1.5670	0.93-0.91cpm	7.05	2.57-2.54pm	6.52
Ireland†	1.4425-1.4545	1.4510-1.4520	0.33-0.28cpm	2.52	1.20-1.10pm	3.17
Canada	1.1685-1.1710	1.1695-1.1705	0.36-0.39cdis	-3.84	1.07-1.10dis	-3.71
Netherlands	2.0475-2.0705	2.0520-2.0530	0.03pm-pardis	-0.09	0.01pm-0.03dis	-0.04
Belgium	38.10-38.55	38.20-38.30	3.50-5.50cdis	-1.41	11.50-14.50dis	-1.36
Denmark	7.05¾-7.13¼	7.06-7.06½	2.35-2.70oredis	-4.28	6.35-6.85dis	-3.73
W. Germany	1.8140-1.8365	1.8195-1.8205	0.12-0.10pfpm	0.73	0.12-0.09pm	0.23
Portugal	157.05-157.65	157.55-157.65	65-75cdis	-5.34	270-295dis	-7.19
Spain	116.50-117.95	116.70-116.80	66-70cdis	-6.68	185-195dis	-6.51
Italy	1336½-1349½	1340-1340½	4.70-5.20liredis	-4.43	14.50-15.50dis	-4.48
Norway	6.86¾-6.91½	6.88-6.88½	1.65-2.00oredis	-3.18	5.35-5.75dis	-3.23
France	6.18-6.24¼	6.19½-6.20	1.00-1.07cdis	-2.00	3.30-3.45dis	-2.18
Sweden	6.40¾-6.45¾	6.42-6.42½	1.80-2.05oredis	-3.60	5.60-5.95dis	-3.60
Japan	143.50-144.55	143.70-143.80	0.29-0.27ypm	2.33	0.69-0.66pm	1.88
Austria	12.78¼-12.92¼	12.80¾-12.81¼	0.05pm-0.35grdis	-0.19	0.10-1.50dis	-0.25
Switzerland	1.6120-1.6390	1.6170-1.6180	0.19-0.16cpm	1.29	0.27-0.22pm	0.60
ECU	1.1210-1.1225	1.1215-1.1225	0.22-0.21cpm	2.30	0.68-0.65pm	2.37

Commercial rates taken towards the end of London trading.† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 38.20-38.30.

CURRENCY RATES

Nov.21	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling #	-	1.22667	1.39699
U.S Dollar	7	1.27117	1.12241
Canadian $	12.46	1.48879	1.31356
Austrian Sch.	6½	16.4922	14.3814
Belgian Franc	10¼	49.1689	42.8985
Danish Krone	10½	9.10221	7.94049
Deutsche Mark	6.00	2.34162	2.04279
Neth.Guilder	7.00	2.64276	2.30509
French Franc	10¼	7.96642	6.95894
Italian Lira	13½	1720.56	1505.04
Japanese Yen	3¾	183.875	161.683
Norway Krone	8	8.81429	7.72050
Spanish Peseta	-	149.439	131.187
Swedish Krona	9½	8.21811	7.72050
Swiss Franc	6.00	2.07284	1.81887
Greek Drach.	20½	210.340	184.345
Irish Punt	-	0.884611	0.773063

Sterling quoted in terms of SDR and ECU per £.
† European Commission Calculations.
* All SDR rates are for Nov.20.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Nov.21	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	42.8985	+1.04	+0.96	±1.5424
Danish Krone	7.85212	7.94049	+1.13	+1.05	±1.6419
German D-Mark	2.05853	2.04279	-0.76	-0.84	±1.1019
French Franc	6.90403	6.95894	+0.80	+0.72	±1.3719
Dutch Guilder	2.31943	2.30509	-0.62	-0.70	±1.5019
Irish Punt	0.768411	0.773063	+0.61	+0.53	±1.6689
Italian Lira	1483.58	1505.04	+1.45	+1.45	±4.0815
Spanish Peseta	133.804	131.187	-1.96	-1.96	-

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

CURRENCY MOVEMENTS

Nov.21	Bank of England Index	Morgan** Guaranty Changes %
Sterling	87.2	-23.4
U.S Dollar	69.6	-8.4
Canadian Dollar	105.1	+1.8
Austrian Schilling	108.6	+11.1
Belgian Franc	108.0	-4.7
Danish Krone	106.6	+1.1
Deutsche Mark	116.3	+23.1
Swiss Franc	106.8	+15.1
Guilder	112.8	+15.1
French Franc	101.4	-14.1
Lira	99.5	-19.0
Yen	134.8	+64.4

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) **Rates are for Nov.20.

OTHER CURRENCIES

[illegible]

*Selling rate

EXCHANGE CROSS RATES

[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS [illegible]

LIFFE US TREASURY BOND FUTURES OPTIONS [illegible]

LIFFE BUND FUTURES OPTIONS [illegible]

LIFFE £/$ OPTIONS [illegible]

LIFFE EURODOLLAR OPTIONS [illegible]

LIFFE SHORT STERLING OPTIONS [illegible]

POUND-$ FOREIGN EXCHANGE [illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8% [illegible]

JAPANESE YEN (IMM) [illegible]

DEUTSCHE MARK (IMM) [illegible]

U.S. TREASURY BILLS (IMM)
$1m points of 100%

	Latest	High	Low	Prev.
Dec	92.67	92.67	92.62	92.69
Mar	93.30	93.31	93.25	93.32
Jun	93.40	93.41	93.40	93.42
Sep	-	-	-	93.35

THREE-MONTH EURODOLLAR (IMM) [illegible]

SWISS FRANC (IMM)
SFr 125,000 $ per SFr

	Latest	High	Low	Prev.
Dec	0.6181	0.6200	0.6165	0.6142
Mar	0.6191	0.6206	0.6180	0.6147
Jun	0.6202	0.6205	0.6185	0.6153
Sep	-	0.6201	-	0.6163

STANDARD & POORS 500 INDEX [illegible]

PHILADELPHIA SE £/$ OPTIONS
£31,250 (cents per £1)

Strike Price	Calls Dec	Calls Jan	Calls Feb	Calls Mar	Puts
1.500	6.20	6.40	6.38	6.42	[illegible]
1.525	3.85	4.29	4.43	4.65	[illegible]
1.550	2.10	2.66	3.23	3.26	[illegible]
1.575	0.97	1.54	2.13	2.35	[illegible]
1.600	0.36	0.86	1.35	1.66	[illegible]
1.625	0.10	0.42	0.91	1.09	[illegible]
1.650	0.02	0.22	0.50	0.68	[illegible]

Previous day's open int: Calls 297,752 Puts 288,344 (All currencies)
Previous day's volume: Calls 10,031 Puts 15,424 (All currencies)

LONDON (LIFFE)

20-YEAR 9% NOTIONAL GILT [illegible]

US TREASURY BONDS 8% [illegible]

6% NOTIONAL GERMAN GOVT. BOND [illegible]

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND [illegible]

THREE MONTH STERLING [illegible]

THREE MONTH EURODOLLAR [illegible]

THREE MONTH EURO DM [illegible]

THREE MONTH ECU [illegible]

FT-SE 100 INDEX
£25 per full index point

	Close	High	Low	Prev.
Dec	2172.0	2174.0	2148.0	2168.0
Mar	2213.0	2215.0	2193.0	2208.0
Jun	2253.0			2253.0

Estimated volume 4600 (7196)
Previous day's open int. 33149 (32250)

EUROPEAN OPTIONS EXCHANGE

Series		Feb. 90 Vol	Feb. 90 Last	May 90 Vol	May 90 Last	Aug. 90 Vol	Aug. 90 Last	Stock
Gold C	$370	156	40.50	2	[illegible]	-	-	[illegible]
Gold C	$380	248	30.10	10	[illegible]	-	-	[illegible]
Gold C	$390	175	23	55	[illegible]	-	-	[illegible]
Gold C	$400	710	17	31	[illegible]	-	-	[illegible]
Gold C	$410	360	12.50	12	[illegible]	-	-	[illegible]
Gold C	$420	960	8.50	326	[illegible]	-	-	[illegible]
Gold P	$370	129	2	-	[illegible]	-	-	[illegible]
Gold P	$380	82	2.80	-	[illegible]	-	-	[illegible]
Gold P	$390	116	6 b	24	[illegible]	-	-	[illegible]

Series		Dec. 89 Vol	Dec. 89 Last	Jan. 90 Vol	Jan. 90 Last	Feb. 90 Vol	Feb. 90 Last	Stock
EOE Index C	Fl. 275	82	11 a	12	[illegible]	[illegible]	[illegible]	[illegible]
EOE Index C	Fl. 280	66	7	14	[illegible]	[illegible]	[illegible]	[illegible]
EOE Index C	Fl. 285	107	4.50	48	[illegible]	[illegible]	[illegible]	[illegible]
EOE Index C	Fl. 290	220	2.70	69	[illegible]	[illegible]	[illegible]	[illegible]
EOE Index C	Fl. 295	366	1.80	-	[illegible]	[illegible]	[illegible]	[illegible]
EOE Index C	Fl. 300	229	0.80	159	[illegible]	[illegible]	[illegible]	[illegible]
EOE Index C	Fl. 305	240	0.50	50	[illegible]	[illegible]	[illegible]	[illegible]
EOE Index P	Fl. 270	131	1.50 b	52	[illegible]	[illegible]	[illegible]	[illegible]
EOE Index P	Fl. 275	140	2.70	5	[illegible]	[illegible]	[illegible]	[illegible]
EOE Index P	Fl. 280	418	4.40	251	[illegible]	[illegible]	[illegible]	[illegible]
EOE Index P	Fl. 285	442	6.50	45	[illegible]	[illegible]	[illegible]	[illegible]
EOE Index P	Fl. 295	67	13	2	[illegible]	[illegible]	[illegible]	[illegible]
EOE Index P	Fl. 300	85	17.30	70	[illegible]	[illegible]	[illegible]	[illegible]
S/Fl C	Fl. 205	109	2.70	11	[illegible]	[illegible]	[illegible]	[illegible]
S/Fl C	Fl. 210	1088	0.80	10	[illegible]	[illegible]	[illegible]	[illegible]
S/Fl C	Fl. 215	225	0.10	-	[illegible]	[illegible]	[illegible]	[illegible]
S/Fl P	Fl. 200	6	0.80	1102	[illegible]	[illegible]	[illegible]	[illegible]
S/Fl P	Fl. 205	101	2	37	[illegible]	[illegible]	[illegible]	[illegible]
S/Fl P	Fl. 210	222	5	23	[illegible]	[illegible]	[illegible]	[illegible]
S/Fl P	Fl. 220	147	15	-	[illegible]	[illegible]	[illegible]	[illegible]

Jan. 90 / Apr. 90 / Jul. 90 series (ABN C, Aegon C, Aegon P, Ahold C, Akzo C … Wessanen C): [illegible]

TOTAL VOLUME IN CONTRACTS : 37,736
A=Ask B=Bid C=Call P=Put

MONEY MARKETS

London rates firm

NERVOUSNESS ON London's financial markets moved wholesale interest rates higher yesterday. A further weakening of the pound ahead of tomorrow's UK trade figures pushed three-month sterling interbank up to 15⅛-15⅛ per cent from 15¼-15⅛ per cent. There was no reaction to news that third quarter UK Gross Domestic Product grew was 1 per cent, against market forecasts of a 0.8 per cent gain.

UK clearing bank base lending rate 15 per cent from October 5

The Bank of England initially forecast a London money market credit shortage of £400m, but revised this up sharply to a shortage of £700m in the afternoon. The authorities did not operate in the market before lunch, but in the afternoon gave help of £689m.

The Bank of England bought £539m bills outright, by way of £50m Treasury bills in band 1 at 14⅞ per cent; £77m bank bills in band 1 at 14⅞ per cent; £27m Treasury bills in band 2 at 14⅞ per cent; and £385m bank bills in band 2 at 14⅞ per cent. Late assistance of around £150m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £229m, with Exchequer transactions absorbing £235m and bank balances below target £15m. These outweighed a fall in the note circulation adding £60m to liquidity.

In Frankfurt call money was steady at 7.30 per cent, in line with the rate at which the Bundesbank provided money market liquidity. The central bank added a net DM100m in accepting bids of DM5.70bn at this week's tender for a 29-day securities repurchase agreement tender, at a fixed rate of 7.30 per cent. An earlier pact of DM9.60bn expired yesterday.

Banks are now waiting for tomorrow's details of the Bundesbank's figure on bank's average reserve requirements for the month. This is likely to be set at around DM56bn, in line with the October figure, but there is speculation that the figure could rise to DM56.5bn and this is why the Bundesbank did not drain funds at this week's tender.

Bank's reserve holdings have fallen recently, to a level of DM53.2bn on Friday from DM57.9bn on Thursday, but averaged DM61.2bn for the first 19 days of the month.

In New York the Federal Reserve provided temporary reserves to the banking system via $1.5bn of customer repurchase agreements, when Fed funds were 8½ per cent.

FT LONDON INTERBANK FIXING

(11.00 a.m. Nov.21) 3 months US dollars: bid 8⅛, offer 8¼ — 6 months US Dollars: bid 8⅛, offer 8⅛

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

[illegible]

LONDON MONEY RATES

[illegible]

BASE LENDING RATES

	%		%		%
ABN Bank	15	Clydesdale Bank	15	Nat Westminster	15
Adam & Company	15	Comm. Bk. N. East	15	Northern Bank Ltd	15
Allied Trust Bank	15	Co-operative Bank	*15	Norwich Gen. Trust	15
Allied Irish Bank	15	Coutts & Co	15	PROVIDbanken Limited	15
● Henry Ansbacher	15	Cyprus Popular Bk	15	Provincial Bank PLC	16
Associates Cap Corp	14	Dunbar Bank PLC	15	R. Raphael & Sons	15
Authority Bank	15	Duncan Lawrie	15	Roxburghe G'rantee	15½
● B & C Merchant Bank	15	Equatorial Bank plc	15	Royal Bk of Scotland	15
Bank of Baroda	15	Exeter Trust Ltd	15½	Royal Trust Bank	15
Banco Bilbao Vizcaya	15	Financial & Gen. Bank	15	● Smith & Williamson Secs.	15
Bank Hapoalim	15	First National Bank Plc.	16	Standard Chartered	15
Bank Credit & Comm.	15	● Robert Fleming & Co.	15	TSB	15
Bank of Cyprus	15	Robert Fraser & Ptnrs.	15½	United Bk of Kuwait	15
Bank of Ireland	15	Girobank	15	United Mizrahi Bank	15
Bank of India	15	● Guinness Mahon	15	Unity Trust Bank Plc	15
Bank of Scotland	15	HFC Bank plc	15	Western Trust	15
Banque Belge Ltd	15	● Hambros Bank	15	Westpac Bank Corp.	15
Barclays Bank	15	Hampshire Trust Plc	15½	Whiteaway Laidlaw	15
Benchmark Bank PLC	15	Heritable & Gen Inv Bnk	15	Yorkshire Bank	15
Brit Bk of Mid East	15	● Hill Samuel	§15		
● Brown Shipley	15	C. Hoare & Co.	15		
Business Mtge Bank PLC	15½	Hongkong & Shangh	15		
CL Bank Nederland	15	● Leopold Joseph & Sons	15		
● Charterhouse Bank	15	Lloyds Bank	15		
Citibank NA	15	Meghraj Bank Ltd	15		
City Merchants Bank	15	McDonnell Douglas Bnk	15		
		Midland Bank	15		
		Mount Banking	15		
		Nat Bk. of Kuwait	15		

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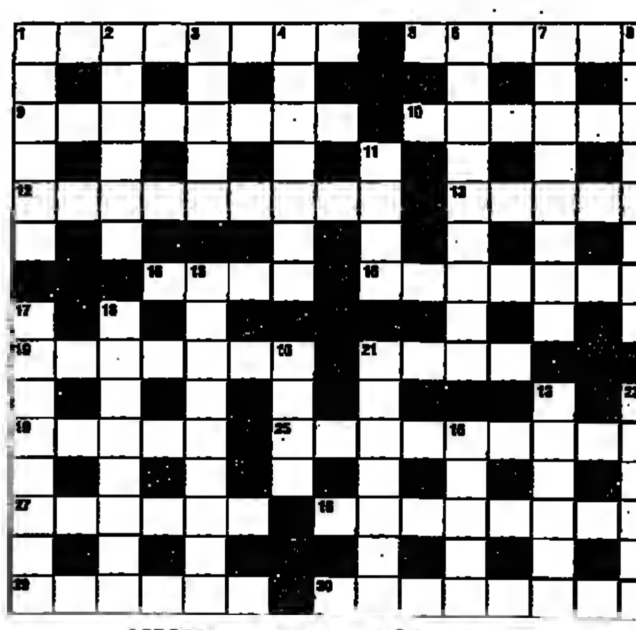
JOTTER PAD

CROSSWORD

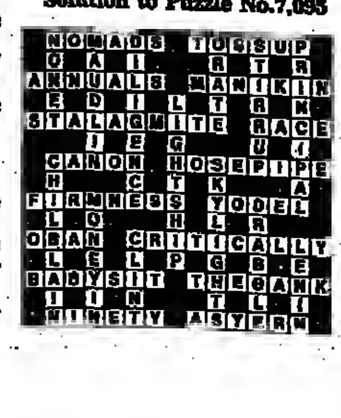
No.7,096 Set by VIXEN



ACROSS
1 Absurdly enough, set store by such favours (8)
5 Writer putting certain points about copy (6)
9 Hit and smash, being careless (8)
10 Nicest possible way to be a crawler (6)
12 Some serving men save, remember! (9)
13 Proclaim there's nothing to value (5)
14 Green-stuff (4)
16 Forecast the Left will retain ten (7)
19 Set this out for religious people (7)
21 Dance with staggering results (4)
24 Means taking some immediate action (5)
25 A large number aim for 23 (9)
27 The author might well be tenser! (6)
28 "— holding both his sides" (Milton) (8)
29 Stay concerned with the players (6)
30 Time for a few words? (8)

DOWN
1 Re-classify a holiday place (8)
2 He's maybe going round the bend – it's the examination! (8)
3 Subject to ups and downs in the main (5)
4 Oriental variety of sea-gull (7)
6 The crowd will get cold on the track (9)
7 Give it time, Edward said again (6)
8 25 framing feed appeal (8)
11 A break in hostilities to parley (4)
15 The sailor coloured and wouldn't have a drink (9)
17 Very very little drops from this (8)
18 Put off deals – she is without capital (8)
20 The problem in combining tin with silver (4)
21 Droll sorcerer making 2 (7)
22 Hear the pound is to catch up (6)
23 Access taken here – of course! (6)
26 View a lot (5)

Solution to Puzzle No.7,095



WORLD STOCK MARKETS

CANADA

TORONTO

2pm prices November 21

Quotations in cents unless marked $.

f = No voting rights or restricted voting rights.

INDICES

NEW YORK

DOW JONES	Nov. 20	Nov. 17	Nov. 16	Nov. 15	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2632.04	2652.66	2635.66	2632.58	2791.41 (9/10)	2144.64 (3/1)	2791.41 (9/10/89)	41.22 (2/7/32)
Home Bonds	93.52	93.50	93.55	93.35	94.15 (2/8)	87.35 (23/3)	—	—
Transport	1163.23	1193.15	1197.72	1205.19	1532.01 (5/9)	959.95 (3/1)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	220.01	221.08	222.40	221.58	222.40 (16/11)	181.84 (24/2)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2659.56 (2665.37) Low 2615.40 (2623.16)

STANDARD AND POOR'S	Nov. 20	Nov. 17	Nov. 16	Nov. 15	1989 HIGH	1989 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	339.35	341.61	340.58	340.54	359.80 (9/10)	275.31 (3/1)	359.80 (9/10/89)	4.40 (1/6/32)
Industrials	387.27	389.92	388.05	388.16	410.49 (9/10)	318.66 (3/1)	410.49 (9/10/89)	3.62 (21/6/32)
Financial	32.49	32.68	32.69	32.49	35.24 (9/10)	24.30 (3/1)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	188.03	189.28	188.75	188.76	199.34 (9/10)	154.98 (3/1)	199.34 (9/10/89)	4.46 (25/4/42)
Amex Mkt. Value	371.48	373.35	372.51	372.15	397.03 (10/10)	305.24 (3/1)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	455.71	456.71	455.28	455.84	485.73 (9/10)	378.56 (3/1)	485.73 (9/10/89)	54.87 (31/10/72)

	Nov 17	Nov 10	Nov 3	year ago (approx.)
Dow Industrial Div. Yield	3.93	3.94	3.93	3.83
	Nov 16	Nov 8	Nov 1	year ago (approx.)
S & P Industrial div. yield	2.98	3.00	2.97	3.32
S & P Indl. P/E ratio	14.40	14.29	14.25	12.13

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
St Jhn Nelmasa	1,989,600	61½	+ ½
Gen Electric	1,926,600	59¾	− ⅜
Dun & B'dstreet	1,444,200	42¼	− ⅝
Boeing	1,304,200	59½	+ 1⅛
Arida	1,272,900	22¼	− ⅛
IBM	1,249,700	98¼	− ⅛
Philip Morris	1,168,100	41¼	− ⅝
Utd Technology	1,137,600	50¼	− 3¼
Am T&T	1,081,400	42⅛	− ⅝
Texas Util	1,052,900	34⅛	− ⅝

TRADING ACTIVITY

† Volume Millions	Nov 20	Nov 17	Nov 16
New York	128.170	151.020	149.283
Amex	12.628	13.980	11.924
NASDAQ	114.922	121.390	146.645
Issues Traded	1,959	1,958	1,968
Rises	467	770	728
Falls	1,008	682	739
Unchanged	484	506	501
New Highs	39	52	74
New Lows	61	41	50

CANADA

TORONTO	Nov 20	Nov 17	Nov 16	Nov 15	1989 HIGH	1989 LOW
Metals & Minerals	3385.63	3403.61	3371.45	3418.02	3919.2 (1/9)	3207.5 (3/1)
Composite	3947.53	3957.57	3946.02	3968.66	4037.8 (6/10)	3350.5 (6/1)
MONTREAL Portfolio	2008.88	2017.66	2007.86	2014.62	2069.68(10/10)	1677.48 (3/1)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds.‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Nov. 21	Nov. 20	Nov. 17	Nov. 16	1989 HIGH	1989 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1629.3	1635.6	1634.4	1629.4	1781.8 (29/8)	1412.9 (7/4)
All Mining (1/1/80)	824.1	828.9	828.3	825.3	875.1 (29/8)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	411.70	416.54	414.20	410.30	515.09 (11/10)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6548.56	6505.50	6507.41	6507.72	6805.28 (26/9)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	358.69	358.00	355.38	354.47	358.69 (21/11)	275.49 (27/2)
FINLAND						
Unitas General (1975)	607.5	618.9	626.9†	627.2	815.8 (18/4)	607.5 (21/11)
FRANCE						
CAC General (31/12/82)	515.4	516.6	516.8	514.1	561.6 (11/10)	417.9 (4/1)
Ind. Tendance(30/12/88)	117.4	118.6	118.0	117.7	128.1 (10/10)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	641.49	648.86	647.14	643.27	690.91 (10/10)	535.78 (27/2)
Commerzbank (1/12/53)	1888.7	1910.3	1903.5	1887.7	2056.8 (10/10)	1595.7 (27/2)
DAX (30/12/87)	1514.09	1532.70	1531.52	1529.58	1657.61 (8/9)	1271.70 (13/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2817.19	2820.28	2804.29	2789.51	3309.64 (15/5)	2093.61 (5/6)
IRELAND						
ISEQ Overall (4/1/88)	1681.78	1683.06	1678.69	1668.42	1848.95 (10/8)	1360.64 (30/1)
ITALY						
Banca Com. Ital. (1972)	664.98	663.60	656.14	655.95	734.84 (31/8)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	36059.87	35893.58	35963.74	35876.34	36059.87 (21/11)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2717.65	2717.63	2717.90	2721.03	2721.03 (16/11)	2366.91 (6/1)
2nd Section (4/1/68)	3692.41	3686.95	3686.12	3686.28	3804.11 (9/10)	2774.38 (27/3)
NETHERLANDS						
CBS Ttl.Rtn.Gen.(End 1983)	248.9	251.4	251.9	251.7	272.7 (21/9)	208.3 (3/1)
CBS All Shr (End 1983)	191.1	193.0	193.4	193.2	210.5 (8/9)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	615.08	618.75	618.85	619.95	695.50 (28/9)	467.17 (2/1)
PHILIPPINES						
Manila Comp (2/1/85)	1386.52	1396.26	1377.85	1359.53	1396.26 (20/11)	804.62 (6/2)
SINGAPORE						
Straits Times Ind. (30/12/66)	1349.42	1345.34	1337.69	1335.60	1431.85 (12/10)	1090.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	2056.0♠	1977.0	1970.0	1966.0	2056.0 (21/11)	1291.0 (15/2)
JSE Industrial (28/9/78)	2563.0♠	2560.0	2560.0	2566.0	2838.0 (25/8)	1961.0 (3/1)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	884.17	889.97	899.60	908.51	1007.80 (3/4)	846.30 (1/7)
SPAIN						
Madrid SE (30/12/85)	297.98	299.36	296.30	294.79	328.93 (13/9)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	3928.3	3987.5	3974.4	4038.7	4660.3 (16/8)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	741.0	743.6	742.6	736.3	829.1 (6/9)	613.1 (3/1)
TAIWAN*						
Weighted Price (30/6/66)	10098.60	10269.04	10325.07	10407.14	10773.11 (25/9)	4873.01 (5/1)
THAILAND						
Bangkok SET (30/4/75)	792.20	777.75	760.83	753.18	792.20 (21/11)	386.73 (2/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	529.2	531.2	531.5	551.2 (3/8)	487.6 (13/6)

**Saturday Nov.18: Taiwan Weighted Price: 10309.07. Korea Comp Ex. 900.83.
♠ Subject to official recalculation, † Correction.
Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Tuesday November 21 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Toyo Rubber	24.6m	1,670	+70	Aoki Corp	16.2m	1,640	+40
Sumitomo Mtl M.	21.7m	2,060	-40	Marubeni	15.1m	977	-19
Mitsui Fd Est	21.1m	3,180	+80	Kansai Paint	14.8m	1,370	-10
Keisei Elc Rlwy	16.8m	3,130	+80	Japan Stl Wks	14.7m	1,290	+10
Mitsubishi Oil	16.4m	1,770	+10	Nippon Oil	15.6m	1,660	+30

3pm prices November 21

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
57½	21¼	AAR	.48	1.4	21	409	34⅛	33⅞	34⅛	+ ⅛
9⅝	8⅛	ACM s	1.01	11.		108	9½	9⅞	9⅞	
11⅞	10⅛	ACMIn	1.26	11.		718	11⅝	11⅛	11⅞	+ ⅛
10⅝	8	ACM M	n1.01	12.		254	8⅛	8⅞	8⅛	
11½	10	ACM Sc	1.26	11.		679	11½	11⅛	11¼	
9⅝	8⅝	ACMSp	1.01	11.		600	9⅛	9⅛	9⅛	+ ⅛
18	11½	AL Lab	.12	.9	15	144	18	15⅞	18	
4⅛	5⅛	AMCA	.12e	3.4	23	20	3½	3½	3½	+ ⅛
6⅛	4½	AM Intl			11	770	5⅛	5⅛	5⅛	– ⅛
23½	18⅞	AM In pf	2	9.7		41	20¾	20½	20⅝	– ⅛
107⅛	47⅛	AMR			7	8330	65⅛	62¼	60⅞	– 1½
27	25	ANR pf	2.57	10.		2	25⅝	25⅝	25⅝	
24⅞	23⅛	ANR pf	2.12	8.5		2	23⅞	23⅞	23⅞	– ⅛
6½	2⅞	ARX				16	3⅞	3⅛	3⅞	– ⅛
64⅞	27⅛	ASA	3a	5.2		2313	u58⅛	53⅝	58	+ 2⅞
30⅛	15¼	AVX	.24		8	25 3089	26	26⅛	26⅞	+ ⅛
80½	44½	AbtLab	1.40	2.1	18	2412	66½	66½	65⅛	– ⅝
16⅛	12⅛	Abitibi g	1			122	13	12⅞	12⅛	– ⅛
15	7½	AcmeC	.40	4.2		34	9⅛	9⅝	9⅛	
9⅛	5⅝	AcmeE	.32	3.9	11	35	8⅛	8⅛	8⅛	– ⅛
38½	20⅛	Acuson			25	184	37⅞	37	37	– ⅞
15⅝	12⅞	AdaEx	2.05e	13.		67	15½	15⅛	15⅞	
12⅝	6½	Adobe				185	12⅛	11½	11⅞	+ ½
18⅛	16½	Adob pf	1.84	9.8		3	18⅛	18⅝	18⅞	+ ⅛
21⅞	15¼	Adob pf	2.40	12.		68	20½	20⅛	20½	– ⅛
19½	7½	AMD				1084	7¾	7½	7⅝	
35	28½	AMD pf	3	10.		1	29⅞	29⅞	29⅞	– ⅛
10½	6⅞	Advest	.16	1.8	13	155	8⅞	8⅞	8⅞	+ ½
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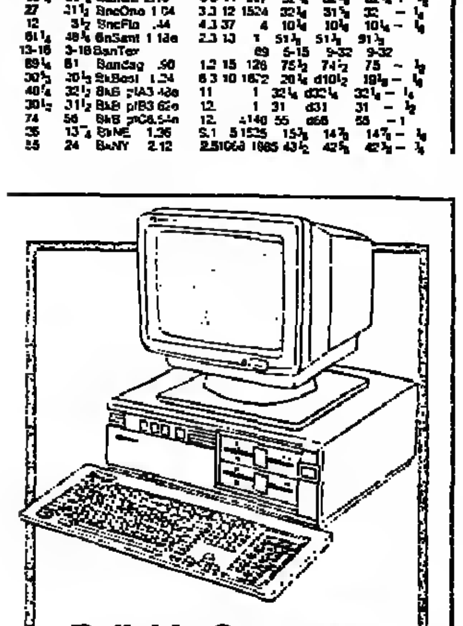

Continued on Page 45

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NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
21⅞	8⅞	vjPNH pfG				13	21¼	21	21	−⅝
21	8¼	vjPNH pfD				28	20¼	19	19	−1¼
20⅞	8¼	vjPNH pfE				10	19¼	19¼	19¼	−¼
20½	8⅛	vjPNH pfF				4	19½	19	19	−½
20	8¼	vjPNH pfG				34	19¼	18¾	19	
16⅞	10⅞	PSvNM .28j				587	13¾	13⅛	13½	−⅛
28½	23	PSEG	2.04	7.3	11	1745	28	27⅞	27⅞	−⅛
48¼	40¼	PSEG pf4.08		8.7		z100	47	47	47	−1¼
59½	41⅛	PR Cem .55a		1.6	7	28	52	51	51	−1½
22⅛	10	PugetP 7.75		8.0	10	847	u22⅝	22	22⅛	
12⅛	11⅛	PDPI s .10e		.8		144	11⅞	11⅞	11⅞	
12⅝	12⅛	PDIF n .11s		.9		10	12⅝	10¼	12⅝	
8⅛	6¼	PHICB	.85	12.		62	7⅝	7⅛	7⅛	+⅛
10⅛	9¼	PHYM n .75		8.3		233	9½	9⅛	9⅛	−⅛
9½	6⅝	PIGIT	1.01	71.		695	9⅛	6⅞	9⅛	
12¼	11⅞	PIGM n				248	18	11⅞	12	+¼
19¼	9⅛	PMMI n.75a		7.9		358	9⅝	9½	9½	
9⅜	7⅞	PMSIT 1.03a		13.		916	7⅞	7⅝	7⅞	
9⅝	8	PMIT 1.10a		14.		1580	8¼	8⅛	8⅛	−¼
9¼	8	PPrIT	1.14	14.		2873	8⅛	8	8⅛	
12	6⅜	QMS			7	100	10¼	10½	10⅝	
1	3-16	Qantel				31	¼	⅛	⅛	−1-32
66⅞	49½	QuakrO 1.40		2.3	22	2468	60½	59⅞	59⅞	−¼
19⅛	15⅛	QuakSC	.80	5.3	27	1486	15¼	15⅛	12⅛	
19	12½	Quanex	.32	2.2	6	74	14¾	14½	14¾	−¼
31⅛	25½	Quanx pf2.38		8.9		14	26	25¾	25¾	−1
59½	30¼	Quantm	3e	8.0	3	295	34¼	33¾	33⅞	−1⅛
13	10½	QstVl 1.20a		9.3		295	18	12⅞	12⅞	−⅛
14	7⅞	QstVC				320	18⅞	12¼	12⅞	
39½	21⅝	Questar 1.92		5.2	10	64	37	36¾	36⅞	+⅛
16⅛	10¼	QkReily	.24	1.6	13	65	16¼	15⅛	15¼	+⅛

— X-Y-Z —

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
69	53⅞	Xerox	6	6.3	15	1125	57½	56¾	57	−⅛
49	44½	Xerox pf4.13		8.5		1	48½	48½	48½	−½
44¼	23¾	XTRA	.72	3.0	7	31	24½	24¼	24⅛	−⅛
35	21¾	XTRA pf1.94		8.9		17	25¼	21⅞	21⅞	−⅝
4¼	2	Zapata				1017	2⅝	2⅜	2½	+⅛
21½	11½	ZenithE				705	12¼	11⅞	13	−⅛
2½	⅛	vjZenLb				1385	9-32	¼	9-32	−1-32
21½	15⅝	ZenNtl	.84	4.5	9	12	18½	18⅝	18⅝	
13	6⅞	Zenix	1.20	16.		208	7⅝	7⅛	7⅛	−⅛
18½	12½	Zero s	.40	2.7	14	39	15⅝	14⅞	15	
44¼	25⅝	Zurnin	.76	2.8	10	129	38⅛	28½	38⅝	−⅛
12⅞	13	Zweig	1.12e	9.4		133	11⅞	11⅝	11⅞	+⅛
9⅞	8¾	ZweigTl	.96	9.8		786	9⅝	9⅝	9⅝	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3pm prices November 21

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Prood A	.10		283	7¾	7½	7¾	+⅝
ProCm s			10	4⅞	4¾	4⅝	+⅝
ProMed	.42	10	17	0	4⅞	5	
ProlCre		11	41	6¼	5	6⅛	+⅝

— R-R —

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
RBW		18	10	8⅛	6¼	6⅛	+¼
ReCap		12	73	13⅞	10⅞	15⅞	
Riedel		20	10	13⅝	18½	13⅝	+⅛

NASDAQ NATIONAL MARKET

3pm prices November 21

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
Xicor		7	1132	3⅝	3⅝	3½	
YenEnS	.78e		1404	21	20⅛	26¼	−⅛
YelowF	.76	11	396	25⅛	25⅛	25¼	−⅛
YorkRs			354	7⅝	6⅞	7	−⅝
ZionUt	1.44		31	35	29	30	+1

AMERICA

Defence issues stay weak despite recovery hopes

Wall Street

ALTHOUGH many analysts felt the hammering of defence stocks on Monday was an over-reaction to the prospect of cuts in the defence budget, equities failed to make up any ground yesterday morning, *writes Janet Bush in New York.*

At 2 pm, the Dow Jones Industrial Average was quoted 5.76 points lower at 2,626.28 on *sluggish volume of 87m shares.* On Monday, the Dow had closed 20.62 points lower at 2,632.04.

The aquity market showed little reaction to yesterday'a key economic release: the consumer prices index rose by 0.5 per cent, which was in line witb expectations. However, the bond market was on the defensive because, with tbe volatile food and energy components stripped out, the index still rose by 0.5 per cent, which was *larger than expected.*

So far this calendar year, the CPI has risen at an annual rate of 4.6 per cent, still worryingly high given that the economy has been slowing for some months.

Far from recovering from the sharp sell-off on Monday, defence issues remained weak. General Dynamics fell another $1⅛ to *$43 and Martin Marietta* dropped $1¼ to $38¼.

The Dow Jones Transportation Average, whicb plunged 27.92 points on Monday to 1,163.23, remained weak. At midsession, the index was quoted 10.50 lower at 1,152.73.

The index has been undermined by newspaper reports that bankers remained reluctant to finance a huy-out or recapitalisation of UAL, the parent company for United Airlines. UAL dropped another $8¾ to $159 having fallen $12⅞ on Monday.

The experience of defence and airline issues over the last two days is an indicator that the mood of the market is not particularly constructive. The fact that neither sector showed *any sign of bouncing back yes*terday, even in the absence of furtber negative news, was a disappointment.

Among featured stocks yesterday was Georgia Gulf, which plunged $6⅞ to $45¼ at midsession. The company said that it had made a preliminary decision that a leveraged recapitalisation would be the *best of several alternatives. It* has received a $50 a share bid from Mr Harold Simmons, the Dallas investor.

Avon Products added $1¼ to $36¼ on hopes of a hidding war. Rohert M. Bass Gronp said it held 5.9 per cent of the common shares, while Chartwell Associates holds 6.9 per cent and said that it might *seek control.*

CML Group, a sportswear and recreational goods manufacturer, jumped $4⅝ to $20⅝ on news of a $23 a share takeover hid from Mr Irwin Jacobs, the Minneapolis investor, who already has a 14.2 per cent stake.

Texas Instruments fell $1⅛ to $28⅜. The company said late on Monday that it would take a pre-tax charge of around $55m in the fourth quarter and cut its workforce by around 1,500 people.

Tucson Electric Power dropped $1⅝ to $18⅝. The utility reported e third quarter loss of $110.7m, prompting speculation that it may be forced to reduce or even eliminate its dividend.

Pinnacle West Capital fell $1 to $5¾. The company said that non-performing loans at its Merahank subsidiary had grown to $1.08bn and added that it would have to borrow at least $74m by January 8 or face possible default on its debt.

Canada

LAIDLAW'S announcement of a large offering of its class B shares tipped Toronto lower in light volume.

The composite index lost 13.8 to 3,933.7 on volume of 21m shares. Advances ontweighed declines by 287 to 229.

Laidlaw Bs fell C$⅞ to C$25¼ on turnover of 2.57m shares, while its A shares eased C$⅞ to C$25⅜.

Gold shares continued to recover from early November losses as the hullion price passed the $400 level.

Japanese focus switches to land holdings

Michiyo Nakamoto on the increasingly popular Q-ratio method of evaluating shares

AS TOKYO'S importance as an information and financial centre grows, demand for office and residential space in and around the city is expected to exceed supply at least until the year 2,000.

At the same time, as the Japanese economy shifts away from heavy industry towards a leading role for the service sector, disused factory land near the cities is becoming much more valuable in accommodating the growing needs of the information society.

Mr Kenji Kohata, general manager of investment research at Nomura Securities, says that when such significant structural changes as these take place in an economy, earnings become an insufficient measure of a company's value.

Investors in Japan have for some time been buying companies on the strength of their land holdings. In industries that face restructuring, and where the core business is losing its predominance as a source of revenue – as in steel and shipbuilding – the value of the land they own can provide a convenient alternative to earnings in setting the appropriate level of a share price.

This ties in neatly with a theory floated a few years ago and now becoming increasingly fashionable: that the real land holdings, rather than the book value, of land assets should be used in evaluating share prices.

This idea was used to explain why Japanese share prices were not really as over-priced as they appeared, when looked at in terms of their price/earnings ratios – which were much higher than those in the US or in the UK.

The trick was to use a formula, originally devised by an American economist for another purpose, to calculate the share price of a particular company in relation to the real market value of its net assets.

The Q-ratio formula, which is the share price divided by net asset value per share, should in theory be at least equal to, if not greater than 1. Since the Q-ratio of Japanese stocks, by and large, was much lower than 1, seen in this light Japanese share prices actually looked cheap.

The underlying assumption is that this latent value is in some way calculable. Mr Kohata claims that it is, to some extent. Nomura Securities, among others, has calculated that the land assets of certain companies, if used as rented office or residential space, would raise earnings several times.

Companies such as Ishikawajima Harima Heavy Industries and Tokyo Gas, which own vast tracts along Tokyo's waterfront, have all seen a surge of interest on the expectation that they will develop their strategically-located and generally idle land into rented space, which will boost their profits substantially over the long term and form the basis of a new revenue-generating business.

Even the most enthusiastic proponents of the Q-ratio, however, recognise that the net asset value of a company is difficult to determine. "The Q-ratio itself is really only a theoretical device," says an official at a leading securities firm.

Another problem is that, once the Q-ratio has been calculated, investors have to decide how to set the share price against it. If Mitsui Real Estate's net asset value comes to Y10,000 a share (more than three times its stock market valuation yesterday of Y3,180), is Y10,000 an appropriate level for the share price? At what level below Y10,000 would it be considered undervalued?

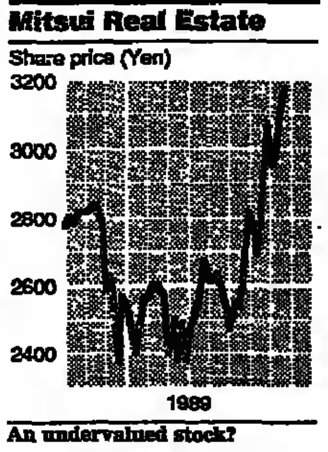
None the less, there is growing confidence that the concept will continue to win a larger following. "The market is definitely moving in that direction," claims Nomura's Mr Kohata. Several companies with land holdings have also become the subject of takeover rumours.

The entire scenario of an asset-based boost to future earnings would fall apart if land prices in Japan collapsed, or even fell significantly. But Mr Kohata is confident that this will not happen, because the very credibility of Japanese corporations rests on their land holdings.

"If Japan's land prices collapsed," he concludes, "it would have a disastrous effect not only on the Japanese market, but on markets all over the world."

Mitsui Real Estate

Share price (Yen)



An undervalued stock?

The trick was to use a formula to calculate the share price of a company in relation to the real market value of its net assets

ASIA PACIFIC

Nikkei defies interest rate fear to top 36,000

Tokyo

STRONG DEMAND for equities overcame persistent interest rate concerns to help the Nikkei average close above the 36,000 level for the first time, *writes Michiyo Nakamoto in Tokyo.*

Monday's correction seemed to give equities renewed energy and the Nikkei finished at its intra-day high of 36,059.87, up 166.23. This week was 35,920.24. Gains led losses by 489 to 411, while 216 issues were unchanged.

Turnover improved to 804m shares from 693m on Monday. The Topix index of all listed shares was hardly changed, rising only 0.03 to 2,717.65, while the ISE/Nikkei 50 index in London gained 2.77 to 2,066.58.

Yesterday's buoyant demand came in spite of simmering fears of an increase in Japan's official discount rate. Although the yen is still weak and interest rates high, investors were generally *unwilling to sell* equities because they have increasing amounts of cash. Another fresh flow of special trust funds is expected to come into the market today.

November is also thought to be a propitious time to buy. For the past 20 years, buying in November and selling at the end of January has provided investors with favourable returns as measured by market indices, said one analyst.

Investors have recently been doing the rounds of four groups of shares – companies with strong earnings, large-capitalisation stocks that have undargone a correction, shares backed by property assets, and resources companies. Interest *focuses* on *one or two of these* groups, sending prices to high levels, and then switches to the others.

Yesterday the focus was on tha first, with high-priced, high-technology stocks widely favoured. Fuji Photo Film climbed Y90 to Y4,480, Sony gained Y230 to Y8,360 and Pioneer firmed Y170 to Y5,670.

Asset-backed issues also attracted interest. Mitsui Real Estate was third on the actives list with 31.1m shares traded and rose Y80 to Y3,180. Keisei Electric Railways, which was also supported by speculation that a subsidiary would be listed, was up Y60 at Y3,120.

The petroleum sector enjoyed attention. Nippon Oil advanced Y30 to Y1,660 and Mitsubishi Oil rose Y10 to Y1,770 amid expectations that liberalisation of the industry will entail a big restructuring.

Toyo Tire and Rubber rose on rumours of speculative activity amid growing expectations of a reorganisation of the domestic tyre industry. It topped the actives list with 24.6m shares and gained Y70 to Y1,870.

In Osaka, high-tech issues supported a 169.64-point gain in the OSE average to a record 37,301.19. Volume firmed only slightly to 69m shares from 67m on Monday.

Taiyo Sanso, a leading industrial gas producer, rose Y80 to Y1,370 on good sales of its high-purity gas generator for semiconductor purification, favoured because it does not use chlorofluorocarbons.

INDIAN STOCKS were supported by heavy buying by state-run investment trusts yesterday, the day before the start of national elections. Individual investors remained nervous after several opinion polls predicting *the defeat of Prime Minister* Rajiv Gandhi's ruling Congress Party.

Roundup

WALL STREET'S losses on Monday unsettled Asia Pacific markets, which drifted for want of more positive stimuli.

AUSTRALIA ended slightly lower, with the gold sector hit by profit-taking as investors grew nervous about the latest jump in the bullion price. The view seemed to be that the sharp rise in the precious metal was already contained in the price of many gold shares.

The All Ordinaries index lost 6.3 to 1,629.3 and the gold index fell 22.5 to 1,747.4.

Turnover was a more moderate 106m shares worth A$179m after Monday's levels of 179m and A$429m, although there was more block trading in oil stock Santos, up 1 cent at A$3.84.

ICI Australia gained 8 cents to A$6.06 on its annual profits, which were in line with expectations. Newmont Australia, in which Newmont Mining of the US has sold a 26 per cent stake, was off 7 cents at 93 cents. The stake was sold at 87 cents.

HONG KONG was still dominated by the property sector, but this was not enough to produce a second gain. The Hang Seng index eased 3.09 to 2,817.19 as turnover drifted slightly to HK$667m worth of shares against HK$926m.

Property stocks are catching up after falling behind over the past few weeks, and the sector has seen some encouraging sales of medium and small homes.

Cheung Kong lost 5 cents to HK$9.55 after Mr Li Kashing, head of the group, was reported as saying that he had no plans for a restructuring of his companies in the next year.

SINGAPORE made a second modest gain on individual buying, the Straits Times industrial index rising 4.06 to 1,349.42. Volume was fairly low at 41m shares worth S$63.5m, down slightly from Monday.

TAIWAN suffered from selling by investors impatient about the market's failure to rally from five consecutive losses. The weighted index fell 170.44 to 10,093.60 in active trading.

SOUTH AFRICA

A SURGE by the bullion price above $400 an ounce raised demand for Johannesburg gold shares yesterday. Other mining and mining financial issues followed golds higher. The JSE Gold index closed at a preliminary 2,056, up 79 or 4 per cent, pushing the overall index to a record high of 2,859, up 41. Ofsil added R6.50 to R112 and Vaal Reefs gained R15 to R414.

EUROPE

Transatlantic depression crosses to the Continent

TRANSATLANTIC influences, including Wall Street's overnight drop and the defence cuts which caused it, were reflected in a number of continental bourses yesterday, *writes Our Markets Staff.*

FRANKFURT seemed in accord with the James Capel report of six days ago, which put a question mark against "Eastern Promise" and felt that equities would find it difficult to make much progress against a background of rising inflation and higher interest rates.

With a push from Wall Street, the DAX index closed the day 18.61 lower at 1,514.09, after a 7.37 fall to 641.49 in the FAZ. Volume was back to early November levels, at DM3.3bn against DM4bn on Monday, but this was partly due to feeble investor interest before today's holiday.

Among stocks that moved against the trend, Nixdorf rose DM8 to DM326 on bid hopes, after the surprise resignation of its chairman, Mr Klaus Luft. Siemens, which said yesterday that it was still interested in bidding for Nixdorf, eased DM2.50 to DM591, but held its place at the top of the most-actives list on what was described as big foreign buying, principally channelled through London.

Planned cuts in the US defence budget hit Daimler, which will become West Germany's largest defence company after taking over Messerschmitt-Bölkow-Blohm (MBB) at the end of the year. Its shares fell DM14 to DM642.

PARIS mirrored Monday night'a *US losses* with *falls* in French defence stocks such as Thomson-CSF and Matra.

Thomson dropped FFr11.90, or 7.3 per cent, to FFr152.10 and Matra was off a lesser FFr9.10 at FFr395.90, although It is not known how successful the US Defence Secretary will be with his planned cuts, nor what the ultimate impact on the French companies' sales will be.

Another weak performance came from chemical company Rhône-Poulenc, which fell FFr105 to FFr1,895 after news that it was raising $360m with an equity issue to repay short-term debt created through recent acquisitions.

La Rochette, the paper company, fell back FFr7.30 to FFr179 after jumping 10 per cent on Monday on takeover speculation.

Brokers said trading was very quiet at about FFr2bn, after FFr2.3bn on Monday. The OMF 50 index shed 3.56 to 499.10 and the CAC 40 index was off 9.29 at 1,825.21.

ZURICH drifted lower in light trading, the Crédit Suisse easing 2.5 to 603.6. Oerlikon joined the defence losers with a fall of SFr60 to SFr1,005.

MILAN saw gains by Fiat on motor industry prospects; it rose another L145 to L11,070.

There was a further delay for Montedison in a special tax provision, unpopular in Brussels, which would enable it to defer about L825bn in capital *gains taxes in connection* with the Enimont joint venture; Montedison slipped L16 to L1,950. The Comit index rose 1.38 to 664.98 in moderately active trading.

AMSTERDAM was pinning its hopes on insurance companies to revive the market with healthy third-quarter results today. But while their shares moved up, the CBS tendency index fell 1.8 to 177.0, hurt by Wall Street's loss and a weaker bond market, where long-term yields have risen close to 8 per cent.

Nationale Nederlanden was up Fl 1 at Fl 67.20 and Amev gained 60 cents to Fl 56.20 before their figures. Aegon reports next week.

BRUSSELS was hampered again by interest rate fears, closing mixed in light turnover. However, the chemicals group, Solvay, showed more life, gaining BFr475 to BFr14,375 after the management forecast that the reorganisation of its West German business would boost profits.

The cash market index rose 43.05 to 6,548.55.

COPENHAGEN edged to a second consecutive record high, in spite of some profit-taking. The bourse index added 0.69 to 358.69.

STOCKHOLM resumed its downward course in moderate volume, as depression about interest rates, inflation and the Swedish current account grew. The Affärsvärlden General index lost 11.5, or 1 per cent, to 1,148.4.

Skanska Banken bucked the trend, as its B shares added SKr120 to SKr475 following Svenska's SKr480-a-share bid on Monday.

HELSINKI continued to retreat in slightly more lively trading. The Unitas all-share index lost 11.4, or 1.8 per cent, to 607.5.

Metsa-Serla, the forest industry company, saw its restricted *A shares fall FM20 to FM290* after news of its agreed bid for UK Paper of Britain.

OSLO declined again in thin trading, with the all-share index falling 4.97, or 1 per cent, to 477.58. Shipping issues were among the hardest hit, with the sub-index off 18.16 at 752.85.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Timea Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY NOVEMBER 20 1989						FRIDAY NOVEMBER 17 1989			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1989 High	1989 Low	Year ago (approx)
Australia (85)	146.89	−0.1	139.70	125.06	+0.1	5.33	146.97	138.88	124.93	160.41	128.28	144.65
Austria (18)	145.46	+0.5	138.34	138.86	+0.2	1.75	144.71	136.74	138.62	172.22	92.84	98.82
Belgium (63)	142.61	+0.0	135.62	135.75	−0.2	4.08	142.66	134.81	135.98	144.49	125.58	132.87
Canada (122)	149.00	−0.4	141.70	126.34	−0.3	3.22	149.61	141.37	126.70	154.17	124.67	118.36
Denmark (36)	225.23	+1.1	214.19	218.84	+0.9	1.44	222.68	210.41	216.77	225.23	165.35	150.46
Finland (26)	119.94	−0.5	114.06	107.43	−0.8	2.62	120.60	113.98	108.07	159.16	116.94	128.37
France (127)	133.27	+0.2	126.74	130.60	−0.1	2.84	132.98	125.66	130.69	139.94	112.57	109.61
West Germany (96)	99.35	+0.6	94.48	94.83	+0.3	2.20	98.73	93.29	94.57	103.84	79.56	87.85
Hong Kong (48)	119.30	+0.6	113.45	119.67	+0.6	4.76	118.62	112.09	118.98	140.33	88.41	105.99
Ireland (17)	159.24	+1.3	151.44	155.55	+1.1	2.85	157.24	148.58	153.80	166.69	125.00	132.50
Italy (97)	89.33	+1.4	84.95	90.14	+1.1	2.53	88.09	83.24	89.14	96.73	74.97	84.60
Japan (455)	186.03	+0.0	176.91	169.86	+0.1	0.48	186.00	175.75	169.77	200.11	164.22	188.63
Malaysia (36)	196.31	+0.2	186.69	204.82	+0.3	2.59	195.95	185.16	204.13	209.22	143.35	138.41
Mexico (13)	287.89	−0.6	273.76	830.96	−0.6	0.62	289.69	273.73	836.17	328.61	153.92	176.77
Netherland (43)	126.04	+0.1	119.87	119.14	−0.2	4.46	125.87	118.94	119.41	131.72	110.63	108.60
New Zealand (18)	75.34	−0.2	71.65	67.83	−0.3	5.21	75.49	71.33	65.06	88.16	62.64	70.96
Norway (24)	170.84	+0.1	162.47	160.35	+0.1	1.65	170.63	161.24	160.21	196.39	139.92	120.94
Singapore (26)	158.03	+0.8	150.28	142.81	+0.3	2.07	157.53	148.86	142.32	170.62	124.57	117.94
South Africa (60)	165.64	+0.0	157.53	143.97	+0.0	3.94	165.70	156.57	144.01	169.21	115.35	116.19
Spain (43)	152.23	+0.6	144.77	135.91	+0.8	3.85	151.29	142.96	134.84	169.75	143.14	152.41
Sweden (35)	165.59	+0.4	157.48	158.36	+0.5	2.16	165.00	155.91	157.55	188.94	138.45	133.86
Switzerland (64)	86.27	+0.3	82.04	87.28	+0.2	2.17	86.00	81.27	87.07	94.16	67.81	76.37
United Kingdom (305)	139.21	−2.2	132.39	132.39	−1.6	4.64	142.35	134.51	134.51	158.41	133.26	138.65
USA (546)	137.88	−0.6	131.12	137.88	−0.6	3.36	138.77	131.13	138.77	146.29	112.13	108.53
Europe (995)	123.61	−0.6	117.74	118.27	−0.5	3.55	124.55	117.69	118.84	132.95	112.63	114.85
Nordic (121)	166.77	+0.6	158.59	153.83	+0.5	1.85	165.76	156.63	152.98	176.38	137.95	127.95
Pacific Basin (668)	181.87	+0.0	172.95	166.02	+0.1	0.73	181.82	171.61	165.91	194.72	160.44	183.62
Euro – Pacific (1663)	158.72	−0.2	150.94	146.92	−0.1	1.63	158.99	150.24	147.08	166.98	141.56	155.98
North America (668)	138.44	−0.8	131.66	137.16	−0.6	3.35	139.31	161.64	138.02	146.66	112.79	109.04
Europe Ex. UK (690)	113.33	+0.5	107.77	109.52	+0.3	2.82	112.74	108.53	109.21	116.51	96.30	99.59
Pacific Ex. Japan (213)	131.86	+0.2	125.40	116.27	+0.2	4.82	131.66	124.41	117.99	140.05	111.93	122.55
World Ex. US (1858)	158.53	−0.2	150.76	146.43	−0.1	1.70	158.61	150.07	146.60	166.35	141.49	154.27
World Ex. UK (2099)	151.20	−0.2	143.79	144.61	−0.2	2.01	151.43	143.09	144.85	156.04	136.98	136.57
World Ex. So. Af. (2344)	150.01	−0.3	142.66	143.45	−0.3	2.22	150.51	142.22	143.96	155.92	136.67	136.98
World Ex. *Japan* (1949)	133.08	−0.6	126.56	129.89	−0.5	8.49	133.85	126.48	130.58	140.43	114.51	111.75
The World Index (2404)	150.11	−0.3	142.75	143.45	−0.3	2.23	150.60	142.81	143.86	155.89	136.68	136.74

Latest prices were unavailable for this edition. South African prices were not fully updated November 20.

SECTION III

FINANCIAL TIMES SURVEY

Italian Banking
Finance & Investment

As the larger banks, impelled by 1992, organise mergers and forge external alliances, next year's removal of the last curbs on capital movements causes some anxiety. And yet, observes John Wyles, the industry is already operating in a freer regime than ever before.

Ringmasters in control

IN CRAB-like fashion, with frequent promptings from a treasury minister who was once the central bank governor and a central bank governor who was once his a close colleague, Italian banking and finance is moving towards the modern world.

Driven by the exigencies of Europe 1992, the nation's politicians and businessmen are seeking the formulae which will enable Italy to avoid the status of a financial backwater in the next decade.

Progress is characteristically uneven, and conditioned by the ever-complicated requirements of party interests and political consensus. These weigh most heavily in the parliament, which is trying to agree broadly-based reforms of banking, stock-market operations and financial intermediaries, as well as anti-trust legislation.

Some of these legislative goals now look achieveable within the next few months, thanks to the window of opportunity offered by the present five-party coalition led by Mr Giulio Andreotti, which has so far found more internal harmony than any of its predecessors over the last five years.

But the bankers' are not just waiting on the politicians. Anxious to build up domestic strength and international reach, larger banks are organising domestic mergers at an unprecedented rate and forging international alliances, especially in merchant banking.

When the politicians show signs of forgetting the priorities, they are called to order by two men who are the most subtle of ringmasters: Senator Guido Carli, governor of the Bank of Italy from 1960-75, and since last July, Treasury Minister; and Mr Carlo Azeglio Ciampi, the Governor of the last 10 years. After an uncertain beginning, their improving partnership bodes well not only for the conduct of Italian economic policy over the next year, but also for achieving some of the necessary adaptations of the nation's banking and financial markets.

Though the two men do not always see eye to eye – they have had vastly different views, for example, over whether industrial companies should be allowed to control banks – they are both torch-bearers for that austere, highly professional Bank of Italy culture, which longs to cure the worst excesses of Italy's economic system by planting inside it much more efficient market mechanisms.

Profoundly experienced in Italian politics, both men know the importance of fixing clear objectives and the necessity of making compromises along the way. Carli's aims, since he came into office in July this year, have been dominated by a desire to produce convincing evidence that Italy will reduce its public-sector deficits, to argue the case for extensive privatisation of public industry and banks, and to breach the parliamentary logjam which has been holding up anti-trust legislation and badly needed reforms of banking and securities markets.

Ciampi's priorities are much the same, while on the external front both men are determined that Italy should play a leading role in defining the path towards economic and monetary union in the Community. A pre-requisite for such a role will be the removal of Italy's residual restrictions on capital movements next year, in line with the EC's July 1 deadline, and acceptance of a 2.5 per cent margin of fluctuation for the lira in the European Monetary System, instead of the 6 per cent it has been allowed for the past decade.

Capital liberalisation could well cause a measure of pain, not because of any imminent flight of funds but because of EC member governments' expected failure to agree on a harmonisation of their taxes on capital gains. Rome is increasingly worried about the fact that, to be competitive in attracting capital, it may be forced either to move towards still higher interest rates or to reduce (or remove altogether) its 30 per cent tax on bank interest payments.

Neither option is comfortable. The latter could rob the Treasury of L12,000bn, when reducing the budget deficit is the overriding priority; while the former could hurt an industrial performance which has been the motive power behind growth rates everaging 3 per cent a year since 1985.

Next year's eppointment with capital liberalisation is also causing some anxiety inside the Italian banking industry. Mr Piero Barucci, president of the Italian Bankers' Association (ABI), confessed in June that he and his brothers in banking were openly afraid of the new, potentially very competitive, market ahead.

Many would say that this fear is well placed, given the fragmented nature of Italian banking, its limited international presence, high cost-base, patchy, frequently politicised management, and overstaffing. Nonetheless, it has to be pointed out that Italian banking as a whole is already operating in a far more open regime than it has ever known before, and that it is not yet having much difficulty in turning a profit.

Net income last year reached a record L5,363bn, 27 per cent higher than the mediocre 1987, but 12 per cent np on 1986. Operating costs fell from 3.11 to 3.03 per cent of total resources, and staff costs from 2.23 to 2.18 per cent. The poor performance in 1987 depressed growth in the banks' own funds to 8.3 per cent, from 18 per cent for 1985-87. Allied to accelerated lending, this caused risk-weighted capital adequacy to decline for the first time in more than five years.

To comply with the capital ratios set by the Group of Ten countries in July 1988, some 33 Italian banks would have needed at the end of last year to raise collectively L3,000bn – a capital shortfall which was L800bn higher than the year before, but involving 10 fewer uner-capitalised institutions.

Messrs Ciampi and Carli want to encourage bank mergers and to boost the capital strength and competitivity of Italian banking by securing the passage of the so-called "Amato law" (after its sponsor, Mr Giuliano Amato, who was Mr Carli's immediate predecessor at tbe Treasnry). By encouraging banks to transform themselves into joint stock companies, this would create a common legal basis for banking activities, and also permit the structuring of investment and parabanking ectivities under a "polyfunctional" holding company.

Mr Ciampi believes that this legislation will streamline the banks' operating procedures and, perhaps most important of all, establish much clearer powers and lines of responsibility for their managements and governing boards. It would also, of course, facilitate their recourse to equity markets for fresh capital.

Not surprisingly, this raises the vexed question of privatisation. The original Amato draft established a floor for state shareholdings in public banks of 51 per cent, while allowing for politically-approved derogations. However, influential sections of the Christian Democratic party – worried both about losing political patronage over banking nominations and also their powers to influence loan policies – are fighting hard to block any possible waiving of the 51 per cent rule.

The extent to which industrial groups will be free to acquire bank equity will remain unclear until the anti-trust legislation is passed. Until recently, the prevailing compromise would limit any single participation to 20 per cent of a bank's equity, with Bank of Italy approval required for an initial bolding of 10 per cent and for every 2 per cent thereafter. However, Governor Ciampi has many supporters in the parliament who would wish to be even more restrictive on this issue, and a further tightening in the final legislation cannot be ruled out.

The shortcomings in management control, apparently thrown np in the recent scandal involving $3bn of unauthorised loans to Iraq by Banca Nazionale di Lavoro's Atlanta branch, were predictably seized upon by supporters of privatisation. They argue that the present system of party political *lottizazione* (sharing out) of banking jobs offers no proper guarantee of management quality.

This affair has not only severely bruised the image abroad of Italian banking, it also raised questions about the quality of the Bank of Italy's own supervisory arrangements which Governor Ciampi bas swiftly tried to answer. He asserted in a recent speech that the primary supervisory responsibility over BNL Atlanta rested with the American banking authorities, and revealed that the Bank of Italy had instructed Italian banks to tighten controls over foreign affiliates, and to review their reporting procedures, accounting checks and management appointments.

Some Italian bankers have minimised the Atlanta affair with the view that it could have happened to any European bank. Such complacency about its shortcomings has been the bane of Italian banking in the past, and should be severely punished in the much more internationally competitive future.

THE ITALIAN ECONOMY

	1985	1986	1987	1988	1989*
GDP					
Nominal GDP ($bn)	427.2	605.2	758.1	833.3	938.4
Growth in:					
GDP real	2.9	2.9	3.1	3.9	3.2
Primary sector	1.2	1.6	0.5	1.5	
Secondary sector	2.5	2.7	3.7	5.3	
Tertiary sector	3.2	2.9	3.1	3.2	
Private consumption	3.0	3.5	4.3	4.0	3.2
Public consumption	3.5	3.1	3.4	2.0	2.0
Gross fixed investment	2.5	1.4	5.4	5.0	5.9
INFLATION					
GDP deflator	8.9	7.5	5.7	4.9	6.5
CPI	9.2	5.9	4.7	4.2	6.3
UNEMPLOYMENT RATE	10.3	11.6	12.0	12.1	12.0
BUDGET DEFICIT (trillion lire)	117.0	116.0	120.0	117.0	134.0
Deficit/GDP	(13.5)	(12.1)	(11.6)	(11.5)	(11.4)
TRADE BALANCE ($m)	(12,091)	(2,534)	(8,583)	(9,800)	(13,700)
MONEY SUPPLY					
Monetary base	17.3	7.1	10.1	9.7	
M1	10.4	10.7	7.4	7.6	6.0
M2	11.0	9.4	8.3	8.3	8.0
INTEREST RATES					
Discount rate	15.0	12.0	12.0	12.5	13.5
5-year government bond	13.7	11.5	10.8	10.7	11.8
CURRENT A/C BALANCE ($m)	(3,540)	(2,912)	(1,078)	(6,300)	(10,000)

*Estimated

Source: Pitagora (San Paulo Group)

■ Subtle ringmasters ... Mr Carlo Azeglio Ciampi, Governor of the Bank of Italy for the last 10 years (*top*); and Senator Guido Carli, the previous governor, and, since last July, Treasury Minister (*Pictures: Terry Kirk*). Their partnership bodes well for economic policy, and for the achievement of some of the necessary adaptations to the nation's banking and financial markets. Mr Ciampi's 10 years are the subject of an article on page 8 of this survey.

ALSO IN THIS SURVEY

(Editorial production: Martin Davies)

THE ECONOMY

The south is the big challenge

JOHN WYLES on the new confidence – and the immediate and long-term problems

IT WAS not all that long ago that any discussion on the Italian economy with a qualified expert seemed to turn into a painful hand-wringing session, in which the list of woes was not only long, but also seemingly insurmountable.

These days, the topic can be addressed with almost unprecedented brevity, and the conversation can quickly move on to the numerous strengths which have become so much more apparent.

With its very healthy industrial sector and aggressive small and medium-sized businesses across a broad range, the country is well placed to continue exploiting the opportunities offered by the still-promising outlook for the global economy. Having enjoyed an average growth rate of 3 per cent a year since 1983 – 0.5 per cent above the European average – Italy can still look forward to a better than average performance next year, when the Government expects output to increase by 3.4 per cent.

But, notwithstanding the continued dynamism of industrial investment in new plant and machinery – 8.6 per cent higher in the first half of the year – there are a number of difficulties which the Government and its partner in economic management, the Bank of Italy, have to wrestle with in the coming months, if the foundations are to be laid for continued growth and prosperity into the 1990s.

Pride of place is occupied by the Government's budget deficit and the accumulated burden of national debt. Unusually, there is rather more optimism around in Rome on this problem than there has been for many years – despite the fact that this year's gap between revenues and expenditures will have missed the L117,000bn target set late last autumn by as much as L13,000bn.

Confidence that the economy as a whole should continue to offer a comfortable framework of growth, within which to tackle the problem, partly explains why spirits are higher in both the Italian cabinet and the Bank of Italy. More important, however, has been the apparent determination of the present government's team of economic ministers, led from the Treasury by the illustrious former governor of the central bank, Mr Guido Carli, to narrow the deficit by squeezing substantially more revenues out of the economy.

The Government's 1990 budget proposal aims at a deficit of L133,000bn, or 10.4 per cent of GDP, in a manoeuvre which will raise an extra L15,000bn of revenues and cut L5,000bn from government spending. This is the largest single attack on the deficit ever mounted; and, while still lacking credible constraints on health and pensions expenditure, it appears even to have put heart into Mr Carlo Azeglio Ciampi, the Governor of the Bank of Italy.

For nearly 10 ten years, he has been trying to call the politicians to order on the deficit; and for most of that time he has found little to praise in lame deficit reduction policies, which have served only to push up accumulated debt to slightly more than 97 per cent of GDP. When Mr Ciampi acknowledges that a budget proposal is a "point of departure", as he has done with this one, then it means he likes it.

Assuming that the parliament does not put the L133,000bn deficit target beyond reach with emasculating amendments, the budget could have two important consequences.

First, it gives credibility to this government's apparent determination to sustain the commitment, handed on from its predecessor, to turn the so-called primary deficit (the balance between revenues and expenditures, excluding interest payments) into a surplus by 1992. This, in turn, should help to reassure domestic and foreign investors during the coming 12 months, when fully 40 per cent of outstanding debt has to be refinanced and when the Government is committed to removing all constraints on capital movements by July 1.

At the same time, it plans to put the lira into the narrower 2.5 per cent fluctuation band, from the 6 per cent margin of fluctuation which the Italian currency has enjoyed since the European Monetary System was founded. These changes will require a stable investment climate if yet higher interest rates are to be avoided.

The other beneficial effect of the budget should be to cool the level of consumer demand, which has done much boost imports and worsen the balance of payments on current account. Demand for consumer goods rose by 12.2 per cent in the first half of this year; and *this had an impact on the trade* deficit, which leaped from L8,453bn in the first half of last year to L14,167bn in the first six months of 1989 – a deficit that was L1,300bn higher than for all of 1988.

Italian exporters have substantially raised their share of world markets this year, with a 9.5 per cent volume growth in exports in the first six months, *but this was not sufficient* to compensate for a 12 per cent rise in imports. As a result, the current account deficit will be around 1.3 per cent of GDP this year compared to 0.6 per cent in the previous 12 months.

The solidity of Italy's current account deficits for most of this decade is beginning to worry Governor Ciampi, who warned recently that a permanent imbalance on current account meant rising overseas indebtedness, with the result that interest costs on foreign debt will reach a record L12,000bn this year.

But this trend has done nothing to damage the lira's exchange rate which, helped by substantially increased capital inflows – including a very large rise in private borrowing abroad (totalling L18,100bn in the first nine months, compared with L10,996bn in the whole of 1988) – has risen by 3 per cent against all currencies, and by 3.4 per cent against EC currencies.

Judging that Italian exporters could live with this appreciation, the Bank of Italy has chosen to let the lira strengthen so as to maintain a downward pressure on prices. Mr Ciampi said recently that this had contained the rise in consumer prices by around 1 percentage point, and warned that further efforts were needed to combat a recovery in inflation "which has not yet been decisively subdued".

In the central bank's judgement, rising prices have been due to increases in world prices for raw materials, the decline of the dollar, increases in public charges and domestic demand pressures. The rate of increase appears to have peaked at 7 per cent in June, but the Government's forecast of an inflation average of 4.5 per cent next year is generally *regarded as over-optimistic*.

This is partly because additional pressures on prices could come from the round of key private-sector pay negotiation due next year, and partly because of growing labour market pressures.

The official unemployment rate of 12 per cent is broadly unchanged from last year, and misleading in several respects. *It masks the fact that unemployment* in the north has fallen from 6.7 per cent to 5.8 per cent over the past 12 months, and that there is virtually full employment (the *official jobless rate is 3.3 per cent*) among the male population in this centre of Italian industry. By contrast, employment levels are continuing to fall in the south, where the unemploy*ment rate has risen from 20.2* per cent to 21.3 per cent.

Of all the challenges facing Italian economic policies in the 1990s, the most daunting is the need to launch a new phase of economic development in the Mezzogiorno (the south). The readiness to move, which characterised the great labour migrations to the north of Italy and Europe of the late 1950s and 1960s, no longer exists, partly because welfare assistance is so much more adequate. In Sicily, Sardinia, Calabria, Basilicata and parts of Campania, much more industrial investment is needed to soak up unemployment and to provide the basis for sustained growth.

Some economists believe that labour shortages in the north will generate a spontaneous movement of investment to the south, but this is not yet apparent. If Italy could launch the Mezzogiorno on a promising growth track, its economy could begin to rival West Germany's in strength. But it is equally possible that the European Community's open internal market will serve only to widen the gap and maintain the Mezzogiorno as a permanent burden on the national economy.

THE STOCK MARKET

A game in need of rules

TO OUTSIDERS, who are certainly not the people who determine the movements of many of its listed shares, the Italian stock exchange is as anomalous and out of date as would be a steam-driven limousine.

It performs very few of a stock market's functions efficiently, and in many respects is a brake on the development of corporate Italy.

These criticisms are hardly new – the sins of insider trading are well known. The novelty lies in the fact that legislative developments at a European level, allied to a growing awareness of the risks of leaving the bourse unreformed, are pushing Italian lawmakers inexorably in the direction of remedial action.

Until the market began to slide in the spring of 1987, and then fell to its knees in the aftermath of the general crash in October of that year, it was still possible for many politicians, regulators and operators to believe that, for all its behavioural weaknesses, the market was best left alone. It had risen by 225 per cent per cent since 1984; the mutual fund industry had achieved lift off, and delivered into equities the savings of millions of small investors; and leading Italian groups had been successfully recapitalising themselves.

But by the end of 1987, the froth had been blown away. The market had fallen by 32 per cent in 12 months, and both private and foreign investors were losing interest. This can best be seen in the fact that net withdrawals from the mutual funds have steadily mounted to more than L7,000bn since early 1988, so that their net assets have fallen from a peak of L71,427bn in mid 1987 to L50bn at the end of September. Against this background, the market has not been able to match the recovery from October 1987 lows achieved by Wall Street, London, Paris and Tokyo.

The reasons for this relative stagnation go beyond the disenchantment of investors, who had once appeared to believe that buying stocks in Italy was tha surest path to capital gains. They were recently set out by two of Italy's leading economists, Franco Modigliani, the Nobel Prize winner, and Enrico Perretti, in a very long article published by *Il Sole 24 Ore*.

The two men argued that deficient politicians, on the one hand, and the handful of powerful industrial and financial groups who dominate the exchange both in capitalisation and trading, on the other, had made the market a dangerous place for the ordinary investor. In the absence of any proper legislative framawork, the interlocking alliances through which the powerful groups manage to control so many companies was leaving the minority shareholder at an immense disadvantage.

The private game, *in* which these groups frequently reshuffle shareholdings and control in transactions completed outside the market, means that the minority shareholder usually does not share in premium prices paid when control of a company passes from one owner, or group of owners, to another. The result is that a minority investment too frequently carries no upside benefit, but substantial downside risk through the loss of capital value.

Modigliani and Perretti argued that, since October 1987, the private sector, both big and small, had been finding it much more difficult to raise risk capital, and would increasingly resort to overseas markets, which were more dynamic and more liquid and would carry many private investors in their wake. In fact, the first migration has begun, to the extent that companies owned by Italy's corporate Titans – Agnelli, De Benedetti, Gardini and Pirelli – have been listed on foreign markets.

The significance of this cannot be exaggerated in demonstrating that these politically influential and economically powerful Barons are prepared to play by rules elsewhere which require more transparency, investor-protection and straight dealing. In the meantime, some of them have also demonstrated that they will continue to play the game the Italian way – which is often contemptuous of minorities' interests – in the absence of a legislative framework.

But this now cannot be too long delayed if the Milan bourse is not to drift out to the most eccentric, and irrelevant, international margins. And, as so often in Italy's case, the call to order is bellowing down from Brussels. The EC Council of Ministers recently approved a directive for curbing insider trading, and is still considering one for regulating public takeovers.

Both are the subjects of draft legislation which the Italian parliament has been considering for some time, along with other legislative proposals governing financial intermediaries and closed investment funds. All are directed at filling legislative gaps that would otherwise have to be closed purely by applying EC directives. This legislative parallelism, in fact, is creating confusion and delay in Rome, where the final outcomes may ultimately wait upon decisions in Brussels.

In the meantime, there are principles to be settled at a national level. One is whether all share transactions must be channeled through the bourse, a requirement which has effectively been written into the legislation on financial intermediaries during its parliamentary journey through amendments severely circumscribing trades outside the exchange. Mr Guido Carli, the Treasury Minister, called this month for a rethink, on the grounds that such an approach would put Italy firmly out of step with the rest of Europe.

Instead, Mr Carli favours – together with the stock exchange regulatory authority, the Consob – the construction of a market, with the help of computerised trading, whose efficiency and transparency would make it the natural centre for trading.

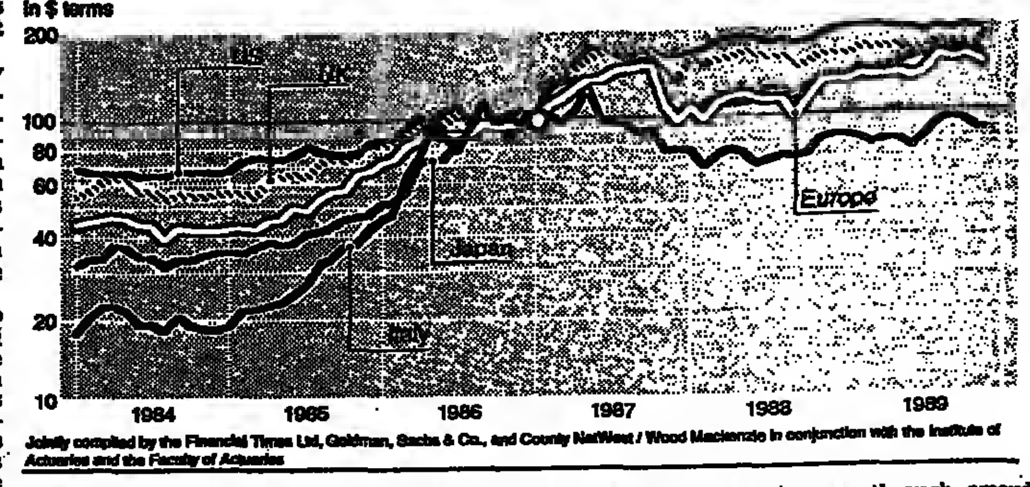
Italy's legislation on insider trading has suffered long delays in arguments over the role of the Consob in investigating and punishing insider traders. However, it now appears likely that an agreement will be found that will give the Consob alone (instead of jointly with the *Guardia di Finanza*, Italy's tax police) responsibility for investigating suspected insider trading. In cases where there are reasonable grounds of suspecting an offence the magistrates would then be called on to act.

From the most recent indications, it now seems possible that the insider trading law could reach the statute book within the next six months; but those relating to financial intermediaries and public offers will certainly take longer. In the meantime, perhaps one should not expect many signs of bullishness from the Italian bourse.

John Wyles

FT-A World Indices

In $ terms



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THE BNL AFFAIR: the decade ends with a unique scandal. FT writers consider the causes, the personalities and the implications

A lesson for all western nations

At first it seemed to be about the obscure Atlanta branch of an Italian bank. But actually, says ALAN FRIEDMAN, it has lifted the veil on the murky world of missile technology procurement by unstable Third World regimes and some western governments' inability, or unwillingness, to act

THE ITALIANS have been unlucky this decade when it comes to banking scandals.

The 1980s opened with the Banco Ambrosiano affair, which featured the mysterious London death of Roberto Calvi, some $1.3bn of missing bank loans that turned out to have gone to ten overseas dummy companies that were controlled by the Vatican bank, and a motley cast of characters that unfortunately brought out the worst in Italian intrigue.

The decade is now closing with the Banca Nazionale del Lavoro (BNL) affair, a scandal that is different from the Ambrosiano story; instead of mysterious Vatican dealings it concerns a mysterious $3bn of unauthorised loan commitments to Iraq by the bank's branch in Atlanta, Georgia.

The only things the Ambrosiano and BNL scandals have in common is that both have attracted international attention and both are subjects which Italians do not like to talk about because they reflect poorly on the country's image.

Indeed, this was one of the arguments used by Mr Guido Carli, the Treasury minister who last month opposed the idea of a parliamentary inquiry into the BNL affair. Mr Carli, whose Treasury is majority shareholder of BNL, has been quite vocal about attacking the bank's former management and quite reticent about the darker sides of the scandal, but he is not the only one.

The BNL affair needs, however, to be considered separately in two different contexts: in terms of what impact it may have on Italian banking; second in international politico-military terms.

The latter is necessary because as much as $1bn of the BNL Iraqi loans are believed by western intelligence circles to have been used for the procurement of a wide range of technologies and equipment that are apparently civilian, but have actually been used by Baghdad for military projects, including the Condor 2 ballistic missile project.

The scandal developed after the Federal Reserve contacted the Bank of Italy on August 4 to say the FBI had discovered that Mr Chris Drogoul, BNL's Atlanta manager, had engineered 2,500 separate letters of credit and direct loans to the central bank of Iraq without reporting them to the bank or to any US authorities.

Mr Drogoul and nine other Atlanta staff members were to be sacked by BNL, but the scandal would soon prove to be more than just a case of a few rogue employees.

On the banking side, there can be no greater embarrassment than for Italy's biggest state-owned bank to admit that its internal auditing controls were so inadequate – some would say non-existent – that Rome headquarters knew nothing at all about the making of $3bn of loan commitments and the payment of $1.85bn on loans and letters of credit over a 17-month period (February 1988 to July 1989) by BNL's branch in Atlanta.

All of the loans were off the books, and the commissions were dramatically low – generally 0.25 per cent, against a normal commission of 10 to 15 per cent on such high-risk lending.

Mr Carli told parliament recently that there were "traces" in the bank's official accounts that should not have escaped internal controls. Investigators into the BNL affair believe a middle-level executive in Rome did know what was going on, but no name has been revealed and the bank denies it.

Mr Nerio Nesi, chairman of BNL, and Mr Giacomo Pedde, director-general, were forced out of office early in September over the scandal. Both said they knew nothing of the Atlanta loans. Their replacements – Mr Giampiero Cantoni and Mr Paolo Savona – have so far remained inscrutably silent about the scandal they inherited.

In financial terms, the BNL affair has created a delicate situation for the following reasons:

■ Baghdad has been demanding that BNL hand over more than $1bn of additional and blocked loans that Atlanta had committed, but not disbursed. Some US companies that are owed export credit funds are either threatening BNL with legal action or, in the case of Lummus Crest of New Jersey, suing.

■ So far, Iraq has been servicing its BNL debt, but it is believed that the loans may end up being lumped together with a further $4bn of outstanding debt owed by Iraq to Italian companies.

■ BNL's net capital position deteriorated by around L600bn ($445m) to about L4,000bn after a series of provisions totalling L1,958bn, including those for Iraqi exposure.

■ The Bank of Italy has ordered BNL to strengthen its capital ratios, and the bank is now undergoing a L2,000bn recapitalisation that includes both rights issues and a special subordinated loan.

BNL has not faced any liquidity problems as a result of the Iraqi scandal, and, thanks to the work of top executives such as Mr Pierdomenico Gallo and Mr Davide Croff, nor has it faced any serious problems on the interbank market. Indeed, some would argue that the most alarming aspect of the BNL affair is not even a banking matter, but the ease with which Iraq was able to secure such a substantial amount of funding for the procurement of militarily useful materials.

The BNL scandal, which at first seemed to be all about the obscure Atlanta branch of an Italian bank, has actually lifted the veil on the murky world of missile technology procurement by unstable Third World regimes and the inability or unwillingness of some western governments to act.

Up to $1bn of the BNL money went to finance exports by US and European companies of a range of industrial equipment and technologies that was "dual use" – seemingly civilian, but actually used by Baghdad to contribute to the development of a vertically-integrated military industrial complex capable of making conventional munitions, chemical warheads and ballistic missiles potentially able to alter the balance of power in the Middle East.

The flow of money from Atlanta to Baghdad was known to some US intelligence agencies. Western intelligence services have been monitoring all aspects of the Iraqi-Egyptian-Argentine missile project, known as Condor 2, for five years. But no action was taken to stop the BNL flow. One government official in Europe said this might have been "because they wanted to follow the flow". The Federal Reserve, the US Treasury, the FBI, the State Department, the Pentagon, the Commerce Department and the National Security Council were all either unaware of the intelligence available on BNL or unable for some reason to act on it.

An Iraqi network of companies in Europe and the US, including some that received BNL letters of credit from Atlanta, was discovered last month to have been established to acquire militarily useful equipment and skills, according to officials in Whitehall.

"The one thing they have in common is high technology," said one British official. "It doesn't matter whether it's machine tools or computers. It all clearly has an arms linkage." What the official did not say was that the Iraqi network of companies, including Matrix Churchill, a Coventry-based machine tools business, was legal.

What, then, is one to make of the real significance of the BNL scandal? It would appear that there are two separate lessons to be drawn from this complex affair. One concerns the need for BNL to seek an immediate and quantum improvement in its internal controls and management of foreign branches.

The other concerns the priority that western governments, and especially Washington, must give to the issue of trying to better police the export of militarily useful technology and equipment to the Third World. Iraq milked BNL's Atlanta branch successfully for 17 months and nearly $2bn of unauthorised credits. Who will be next?

The new man at the helm

GIAMPIERO Cantoni, aged 50 (*above*), the new chairman of BNL, is e Milanese banker who has had a varied career.

Until his appointment, Mr Cantoni, was chairman of a Milan-based subsidiary of Cariplo, Italy's leading savings bank. He has also proved himself as both an academic and a risk-taking entrepreneur, and is a socialist with keen political antennae.

He was already former prime minister Bettino Craxi's favourite for an important public sector banking job before the scandal resulted in the ousting of Nerio Nesi as BNL chairman.

A graduate in economics, Mr Cantoni later studied at Bocconi University, the leading Italian business school, where he now holds a professorship. In 1964, he founded Electropol, a successful machine tools and engineering company.

Mr Cantoni was named vice president at Bancario Italiano in 1982, and became chairman a year later. He has also served in recent years as vice president of Mediocredito Centrale, the medium-term corporate finance and business development lending institute, and as a board member at Saipem, the oil and gas pipelaying and drilling subsidiary of ENI.

Although the Treasury owns majority control of BNL, and Mr Guido Carli, the Treasury minister, has said he would like to see BNL privatised, Mr Cantoni is unlikely to agree to any early privatisation if this means handing a significant stake of the bank to any industrial conglomerate. *AF*

The dogs didn't bark

Who was to blame? The situation is complex. DAVID LANE examines the auditing arrangements, and the system of checks and controls

WHEN depositors and holders of savings shares at BNL read the annual report this spring, they probably drew assurance from the independent external auditors' certification letters.

The audit report was signed by Price Waterhouse and local firm Italaudit, a subsidiary of Italy's popular co-operative banks. Their signatures were joined by Ernst & Whinney's on BNL's consolidated group accounts. Additional comfort on the bank's accounts came from the six-page statutory auditors' report.

Moreover, behind these forces of control, BNL had its own internal audit department; end the bank's Atlanta operations, centre of the scandal which made headlines in September, were snbject to supervision hy the Georgia State and US Federal authorities and by the Bank of Italy's *Vigilanza*. A large pack of watch-dogs was on the prowl.

Yet, when news broke that BNL's Atlanta branch manager had engaged in a massive operation of unauthorised export financing, it was clear that the watch-dogs had failed to bark. Part of the system of checks snd controls had malfunctioned. Who was to hlame?

"Top management is responsible for ensuring adequate control systems. They take the blame, followed by the bank's internal auditors and inspectors," says a partner in s major international accounting firm not involved with BNL. "The auditors' job is to report on financial statements. They cannot give absolute assurance, or guarantee to discover frand. The task of fraud prevention lies with management."

He considers that Price Waterhouse ranks last among the culprits. Professional solidarity apart, this opinion probably owes something to the fact that BNL's Atlanta branch was audited by another major accounting firm, Peat, Marwick, Mclintock.

The situation is complex. The joint sppointment sees Price Waterhouse and Italaudit share responsibility for BNL's accounts. Peat Marwick's role as secondary auditor in ths US is a complication.

"Though joint andits are practicahle – and so are secondary andits where operations are clearly separate – the use of secondary auditors within bank branch networks seems unsatisfactory," the partner remarks about the division of responsibilities between Price Waterhouse and Peat Marwick.

Emilio Palma, the Price Waterhouse partner in charge of BNL's audit, says that Peat Marwick's report gave a clean opinion on Atlanta. With hindsight, he wishes the auditors' report on BNL's accounts had mentioned the use of secondary auditors in the US branch network and who they were.

Mr Palma notes that there are historical reasons why the work was split. "Before BNL was subject to external audit in Italy, the bank had already appointed Peat Marwick to andit US branches. It was a way of reducing the workload borne by the BNL's own internal auditors and inspectors."

He believes that checks on internal control should have revealed shortcomings in procedures used at Atlanta. "Why were so many personal computers used, when a dedicated mainframe was availahle? And why was the Atlanta hranch's clearing bank different from the rest of the BNL's US network?" asks Mr Palma.

Something may have gone wrong in the reconciliation of accounts with correspondent banks, s shortcoming that allowed BNL's Atlanta manager to keep large-scale interbank horrowings undetected. Mr Palma considers that the suhstantial number of ahout 200 time deposits should not have passed unnoticed.

Were corners cut on ths BNL audit? Mr Palma thinks not. But the anditing of Italian banks feels the effects of two adverse factors: the savage fee war between accounting firms, aimed at seizing market-share in the banking sector; and reliance on internal audit groups with limited experience.

Five years ago, when auditors were being appointed to Italian hanks for the first time, and obligatory external independent audit still only applied to a small number of banks, many partners believed thst fees were extremely low, and that this represented a threat to professional standards.

"I do not think that the fee war necessarily led to stinting on effort or put standards in jeopardy. Firms wanted to ohtain experience in Italian banking, and were prepared to sccept almost any fee to gain a foothold. I would like to believe that they performed thorough johs and have taken heavy losses," comments an audit partner, whose firm was not among the winners.

He notes thst sccounting firms must rely on hanks' internal audit departments, and believes that these are generally better placed than external auditors to ideotify shortcomings. "However, the limited international experience of Italian banks is a problem for internal audit teams," he says. Indeed, this was one reason why BNL's US branches were audited hy Peat Marwick. In spite of hsving internal auditors in the US, BNL relied on its external auditors.

The shift from bank inspectors, the long srm of head office, to a more modern internal sudit approach to control is another factor. Old-style inspectors relied on anthority, while the strength of internal auditors should be professionalism. The change from old to new is difficult and incomplete.

The Atlanta case has demoostrated that effective internal audit is crucial. All Italian banks are trying to learn from the Atlanta lesson. And uncovering the weak points exposed hy events at the BNL's hranch is occupying the Bank of Italy's *Vigilanza* supervisory service. Its role was defined clearly hy Governor Carlo Azeglio Ciampi, when he addressed the Italian Forex Clnh at the end of October.

"The supervisory body provides guideline instructions, indicates criteria and makes suggestions of an organisational and operational character," said Mr Ciampi. "It cannot and must not take the banks' place in their application. Equally, the controls undertaken do not substitute the tasks of bank directors and statutory suditors." He noted, moreover, that the primary responsibility for supervising BNL's Atlanta hranch lay with the US authorities.

UNIT TRUSTS: their potential is great, but . . .

Bonds retain their appeal

THE NOTION of thrift – evoking Samuel Smiles and Victorian England – does not square with the image of modern-day Northern Italy.

Elegant Gucci-clad people work in merchant banks during the day, visit La Scala and expensive restaurants at night, and generally enjoy a beautiful life.

And yet Italians, gregarious though they may seem to the casual observer, actually save more of their disposable income than any other nation in the world, including the Japanese.

Whereas the manifestly miserable, space-starved Japanese put away 15 per cent of what they earn, the much happier Italians save more than 20 per cent of their disposable income.

Italians enjoy the good life, yet save more of their disposable income than anyone else

This extraordinary propensity to save is explained by numerous factors, ranging from political instability – 49 governments since the war – to tha close-ties between the generations in Italian families and the government's enormous budget deficit.

But, as Giovanni Palladino, of Finanziari – part of the IMI group – observed receotly, Italian households prodoce a lot of savings, but make few investmeots.

Even now, 50 per cent of total household financial wealth is to be found in liquid assets, such as bank deposits and short-term treasury bills. Putting this phenomenon into historical perspective, soccessive Italian governments, from the mid-1970s onward, found it necessary to issue Treasury paper to finance the ever-growing deficit.

Despite the 13-fold per cent rise in the stockmarket between 1977 and its peak nine years later, savings have been captured by fiscally-attractive government paper, whicb accounted for 7.5 per cent of household wealth in 1978 and 32.2 per cent 10 years later. Even now, 70 per cent of the total value of the Italian financial markets is in the form of government bonds, replenished monthly with vast issues of high-interest bearing stock.

Given the sheer weight of money emanating from Italian households in search of a home, it was inevitable that equities – and particularly equity portfolios packaged in the form of mutual funds (or unit trusts) would at some time become attractive. At the turn of the decade, when the Italian equity market began its vaulting ascent, Luxembourg-based funds – aggressively marketed by growing bands of financial advisers – appealed to some. The real breakthrough came in 1983, when the Italian government permitted the marketing of domestic mutual funds.

The boom started in 1984. It was a virtuous circle: as the market roared ahead – stimulated by the early success of the first mutual funds – so people bought more mutual funds. The range of products was narrow, compared with the US or UK retail market – focusing on funds for bonds, equities and a mixture of the two. But, by the spring of 1986, mutual funds were attracting monthly investment of L6,000bn, and the total invested in such instruments stood at L60,000bn. The number of sales companies serving the market rose from two to 60 over the same period.

"The speculative bubble burst in July 1986, long before it did on the world's other stock-markets," reflects Paolo Azzone, a Milan-based broker. "The unit trusts became too big for Italy – the amount of money splashing into a small pond was quite enormous.

"Of course, the funds were largely invested in blue-chip companies like Fiat, Ferruzi and Pirelli, the only companies where there is any real liquidity. But, once one mutual fund tried to sell one of these stock, everyone else would try, too. Given the weighting that these big companies have in the Italian market, the market as a whole would sink as a result."

Other factors behind the downturn were: unstable interest rates; the flight of foreign capital; the fact that shares had reached lofty and unsustainable valuations; the Italian settlement system could not cope. Over 1987, the market fell by 30 per cent, a worse performance than in most other markets.

The retail fund management industry went into something of an immediate recession. The numerous gronps which had rushed in to build up sales-forces sunk into losses, and in 1988 five sales companies, owned by leading banks, lost L38bn. There were net redemptions of mutnal fund units every month from August 1987 to July 1989. In August this year, there was an upturn, but a net outflow followed again in September.

Fund managers look at the future with a mixture of optimism and despair. They know that tha potential for tha savings industry in Italy is enormons: for introducing new insurance-linked products, or pension products, or savings plans linked to exciting new current account facilities or consumer credit and credit cards.

Looking at the potential for insurance products alone, premiums in Italy still account for only 0.58 per cent of GDP, compared with between 3 and 4 per cent in other industrialised countries. The product portfolio – limited to bonds, bank accounts and offshore mutual funds in the 1970s – is now as sophisticated as many.

But the Italian capital markets are still immature, compared with their equivalents in other European countries. Italian companies have traditionally grown via debt, and not via issues of securities.

According to the Bank of Italy, the valne of unlisted shares is five times as large as that of the stockmarket capitalisation. And the market, as it is, is hardly a model of efficiency: the state and the Agnelli family control 20 per cent of tha market apiece. There are prolific strategic cross-holdings, redncing considerably the free-float of equity.

Mutual funds concentrating on overseas markets are beginning to make some headway. Meanwhile, most Italian investors – if faced with the choice between aquity and government bonds – will always chose the the latter.

"After all," observed one Milanese investor, "so long as the state has to finance its enormous deficit from private savings, it will make sure that bonds are more attractive than shares. The government has a physiological need to win."

David Waller

1992 should curb over-regulation, says **David Waller**

Joint ventures point the way

IT IS often said that Italy is overbanked, with more than 1,000 credit institutions operating in an uncompetitive and inefficient environment.

One of the main reasons for this is that the financial services industry is over-regulated – a situation which should change with the onset of 1992.

The root of the problem is the 1936 Banking Law, which imposed stringent controls on the industry in order to prevent a repetition of the bank crashes in the early 1930s. Further measures were taken in the 1970s, to cope with a chronically weak cnrrency and a vast public deficit.

The earlier measure divided banks into two types: those that could take deposits and provide short-term credit, and those that were obliged to raise funds through the money markets and offer medium to long term finance. Also, the Bank of Italy had to give its approval to new branch openings.

The measures taken to protect the currency were severe: in 1973, those companies investing overseas were required to maintain a non-interest bearing deposit in lire of 50 per cent of the investment; in 1976, unantborised capital flows were categorised as criminal offences.

Little by little, these rules – which have, of course, contributed to the inefficiency of the banking industry – have been relaxed. Since 1981, banks have been able to extend their activities into related financial services; in 1983, unit-trusts were introdnced; the divisions between short and long term credit institutions came down last year.

Rules governing currency transactions and capital flow have also been reformed. In 1987, the requirement to maintain a non-interest bearing deposit was abolished and in October 1988, foreign exchange rules were lifted to the extent that virtually all transactions between Italians and non-residents can take place unhindered by controls.

Prior to last autumn, capital restrictions were based on the philosophy that everything was forbidden unless specifically permitted. Now, all is allowed unless specifically forbidden. The two specific restrictions which still apply are: 1,Italians are not allowed to open bank accounts overseas; and 2, they may not invest in foreign securities with a maturity of less than 180 days.

More generally, Italians must channel all foreign currency transactions via an approved bank; foreign securities must be lodged with a domestic bank.

All this is supposed to change by July next year. By then, the Italian Government has promised, that all remaining restrictions on capital flows will be abolished – and in this sector at least, 1992 ought to come two years early.

Taking the impact of capital flow deregulation first, cynics may observe that many Italians have in the past managed to open up bank accounts overseas – particularly in Switzerland – undeterred by the Government's draconian penalties. And the fact that the last of the restrictions are about to come down underwhelms many Italian bankers, who believe that ingenious investors have always been able to what they wanted in overseas market.

Nevertheless, July 1990 is concentrating the minds of internationally minded Italian banks – and international banks interested in Italy – on the potential for selling international equities to domestic investors disillusioned by the inefficiencies and illiquidities of the Italian bourse.

As a recent report from the San Paolo group puts it: "The abolition of foreign exchange controls ehould increasingly affect the portfolio composition of both residents and non-residents. The share of foreign investments in Italian residents' portfolios has increased, and so has the share of lire denominated securities in non-residents' portfolios."

Looking at Italy's stupendous savings ratios and at the relatively unsophisticated savings industry, three foreign groups have moved in on the market in association with domestic players.

These are Hambros, the UK hanking gronp, which has teamed up with Sanpaolo – one of Italy's largest and most internationally-minded banks – to offer two international mutual funds; Merrill Lynch, which has teamed up with Prime – Italy's second largest mutual fund organisation – to offer three funds; and Chase Manhattan, the US bank which offers its Chase Manhattan America and Intercontinental Funds in association with Fininvest.

The products that they offer are not as specialised as their counterparts in the UK and the US, but there are signs that this is changing: Hambros is planning three new trusts, one directed at international bond markets, another at the global financial services industry, and the third at environmentally sound investments – i.a., Italy's first international "green fund".

The three foreign joint ventures have been successful in attracting funds: Hambros has attracted Italian savings of £70m since the two funds were introduced a year, with a further £170m commmitted through savings plans. The two Chase funds had attracted L76bn by the end of March this year. All three have access to their own networks of salesmen, whilst Hambro's products are sold via Sanpaolo's extensive branch network as well.

Given the increasing sophistication of the Italian investor, the market for such products is theoretically vast. But, as always, the main competition comes not from another investment house but from the Italian government.

It cannot afford to allow vast amounts of money to flow from the country, for it relies on personal savings to finance its gargantuan deficit. Hence the fiscal and tax advantages of government bonds: these bearer documents are subject to only a 12.5 per cent withholding tax, against the 30 per cent docked off dividends from foreign equities and bonds.

Looking at the broader impact of deregulation and the imminent arrival of 1992, Italian banks have been preparing themselves as follows: by rationalising their size; by adopting marketing plans; by introducing new products; and by becoming more international in outlook, often via the sort of cross-holding arrangement which has seen Sanpaolo take a 12 per cent stake in Hambro.

However, bankers acknowledge that the industry has a long way to go before the spirit of 1992 is translated into business practice. Indeed, it is likely that true 1992 will only prevail in the Italian banking sector long after that date has passed.

ITALY'S TOP 10 BANKS: 1988 ($m)

	Capital	Capital/assets ratio (%)	Profits	Assets
1 Istituto Bancario San Paolo	4,705	4.0	1,048	103,105
2 Monte di Paschi di Siena	3,625	5.5	543	66,580
3 Cariplo	3,504	6.5	823	54,131
4 Banca Nazionale del Lavoro	3,352	3.8	211	87,729
5 Banca Commerciale Italiana	3,178	5.1	484	62,700
6 Istituto Mobiliare Italiano	2,940	12.3	774	23,836
7 Credito Italiano	2,319	4.1	320	56,952
8 Banco di Sicilia	1,480	4.8	109	31.140
9 Crediop	1,283	6.9	na	18,694
10 Banco di Roma	1,263	2.3	61	54,757

Source: The Banker

MERCHANT BANKS

Big names open in Milan

FAMILIAR names from international investment banking added weight to the operation which created the Enimont chemicals joint venture, between state-owned Enichem and Ferruzzi Group's Montedison.

The new company's shares were quoted on the Milan bourse at the start of October.

Co-manager for the placement outside Europe, Goldman Sachs, had been involved from the outset in assisting and advising the ENI state hydrocarbons holding in many aspects of the joint venture, from valuation and negotiation to the preparation of business and financial plans and the share placement.

"Having been instructed to give the operation's international dimension careful attention, our choice of professional adviser was from the leading international investment and merchant banks," says Giovanni Ciccone, ENI's head of finance.

ENI contacted six leading banks, choosing Goldman Sachs because of the US institution's wide experience and its ability to bring together rapidly a large team of analysts and economists.

"Goldman Sachs' capability and capacity were not available in Italian banks. The need for the work to be done quickly and well was paramount; the question of fees was marginal," says Mr Ciccone, adding that the Enimont operation was a positive experience.

The invaders are not unopposed . . . And smaller and more recent Italian institutions are attempting to capture a share of the market

Morgan Stanley co-managed the placement of Enimont shares with Goldman Sachs and was on the other side of the table, working on behalf of Montedison's Ferruzzi parent, in negotiating the creation of the chemicals group.

The bank, like Goldman Sachs, drew on staff from London and New York for the Enimont project. "We found ourselves travelling much of the time, spending four or five days a week in Italy," recalls Morgan Stanley vice president Galeazzo Pecori Giraldi.

To reduce time spent in airports and on aircraft, Morgan Stanley decided to establish an Italian office, and has been working from Palazzo Serbelloni, in central Milan, since the end of June. "We recognise that the Italian market is becoming very active," says Mr Pecori Giraldi. "Being here allows us to get close to clients physically and psychologically."

Morgan Stanley believes that international equities trading, and mergers and acquisitions, will generate most business for the Milan office. Cross-border, rather than domestic, Italian business will predominate, though Mr Pecori Giraldi expects to be working for local corporations as well as large multi-national clients.

Rothschild's Richard Katz

The US investment bank is not the only foreign institution hoping to exploit Italy's booming economy and the internationalisation of its financial system. London merchant bank Rothschild is also in business, having established an Italian subsidiary in April. Subsequently it confirmed its presence with July's launch of a Guernsey-based buy-out fund, Old Court Italian Ventures.

Richard Katz, Rothschild Italia's managing director, puts M&As at the head of the bank's priorities, followed by management buy-outs.

"Italian companies are concerned about 1992. Some are interested in boosting their international presence, others want to find foreign partners," he says. "Succession problems in family firms open up opportunities for acquisitions, even if disposal of minority stakes is the first step."

Lower in Rothschild's priorities, but nevertheless important, are international capital-raising, assistance in privatisation and asset management. The bank foresees no role for assisting quoted and unquoted companies in raising capital in Italy's domestic market, but considers that its good wholesale distribution capacity outside should be attractive to Italian companies.

"British merchant banks have vast international expertise, which is valued and valid in Italy. Italian institutions have a major advantage in knowing Italy better, but they lack London's skills in merchant banking," notes Mr Katz.

Other foreign institutions are also trying to exploit their expertise. Euromobiliare, 45 per cent owned by Britain's Midland Bank, is a leader in M&As but operates over a broad range of financial activity. Citicorp is well-established in LBOs and M&As. Morgan Grenfell has long been present, but is thought to be less active now, because of to its connections with Sviluppo Finanziaria, Francesco Micheli's merchant banking group.

But the invaders are not unopposed. All foreign bankers acknowledge that Mediobanca enjoys a strong position with large placing capacity and excellent inside connections as a member of the *ala nobile* (noble wing) of Italian finance. State-owned Sige, part of Istituto Mobiliare Italiano (IMI), also benefits from the large customer network created by IMI's former, almost monopoly position in medium and long-term lending to the industrial sector.

Smaller and more recent Italian institutions are attempting to capture a share of the market. These include San Paolo Finance (Istituto Bancario San Paolo di Torino), Finanziaria Italiana di Partecipazioni (Banca Nazionale del Lavoro) and Invest (Jody Vender's merchant banking operation in which Kidder Peabody has a stake).

Foreign bankers, like Mr Katz and Mr Pecori Giraldi, emphasise that they aim to win cross-border business, and do not expect to compete on the purely domestic market. Nevertheless, it is hard to believe that, once established, they would turn down any chance of widening their field of action.

David Lane

RETAIL BANKS

A Bill for efficiency

WITH IMPORTANT deadlines looming, leading Italian bankers have been undertaking a salutary appraisal of the country's retail banking system.

Piero Barucci, chairman of Associazione Bancaria Italiana (ABI), the Italian Banking Association, has been in the vanguard.

"Our system is less efficient than others that have been able to work freely on international markets, that operate in currencies having significant markets beyond their borders, and that enjoy ownership structures and legislative frameworks that have encouraged reorganisation and a gradual restructuring process," he said at the annual meeting in June.

However, significant changes are in sight for the banking system. Parliamentary approval of the bill conceived by former treasury minister Giuliano Amato will open the way for a radical re-shaping of public-sector banks; the six public law credit institutions, the savings banks and the three banks of national interest controlled by the IRI state holding corporation and their subsidiaries. These currently represent about two thirds of retail banking in Italy.

"The Amato bill will have the effect of giving public-sector banks the possibility of transformation into joint stock corporations. The draft legislation foresees fiscal incentives to encourage concentration through mergers or transfer of ownership," explains Mr Barucci, noting that modifications have been introduced which will extend these incentives to private sector banks.

With about 1,100 different banks, the system is highly fragmented, and for several years the Bank of Italy has been urging a process of concentration.

Two major mergers were announced in February. The first, in which Nuovo Banco Ambrosiano absorbed its Banca Cattolica del Veneto subsidiary, will soon create Italy's biggest privately-owned bank with a 550-branch network and assets expected to amount to L26,000bn at year-end. In the second operation, IRI sold a controlling 51 per cent interest in Banco di Santo Spirito to Cassa di Risparmio di Roma. Mr Barucci says that further operations are likely.

Central to the debate on the Amato bill and public sector banks has been the question of privatisation. The extent of public ownership in Italy is unmatched in other countries. Though the reasons date back to the 1920s and 1930s, the process has continued in recent times with the acquisition of troubled private sector banks by the public sector. During the last 20 years, 42 banks with a total of 835 branches have passed to the public sector.

The authorities consider, however, that a shift in the other direction is possible and desirable. "There is a widely felt need to introduce forms of privatisation, either partial or total, into the system," says Mr Barucci. But decisions on changes of ownership in the Italian banking system must be taken by the Government and parliament, with the final word from the Bank of Italy.

When opportunities are given for buying stakes in Italy's public-sector banks, foreign institutions are likely to be near the head of the queue. Interest from major French banks has been evident this year, with Crédit Lyonnais' bid for Credito Bergamasco, the exchange of cross-shareholdings between Banca Commerciale Italiana and Paribas, the purchase of a stake in Credito Romagnolo by Banque Nationale de Paris and Crédit Agricole's controversial "white knight" purchase of an important stake in Banco Ambrosiano Veneto.

"There will certainly be an increase in interest, but there will also be greater interest in the other direction with Italian banks looking to strengthen their presence abroad. The process of internationalisation must be two-way. We look favourably on exchanges of shareholdings or ownership. But there must be reciprocity," says Mr Barucci.

Some Italian banks are already active beyond Italian borders. Istituto Bancario San Paolo di Torino has made its mark with a series of astute acquisitions of small banks, as well as purchasing an important stake in London merchant bank Hambros. But internationalisation is an area which worries the bank's chairman Gianni Zandano.

"The presence of Italian banks in international markets seems unsatisfactory in quantitative and qualitative terms," he told ABI's *Progetto Europa* earlier this year. He considers that, in many cases, banks have established offices or branches abroad for the wrong reasons, for image rather than for operational purposes.

Staff is another area of concern for Mr Zandano. "One can assume that the fundamental economic condition that has allowed the Italian system to support staff costs higher than other countries is higher earnings from financial intermediation on the domestic market." In other words, Italian customers are paying for inefficiency through higher spreads on interest rates.

Mr Zandano believes that costs must be attacked. With staff contract negotiations currently under way, the opportunity to tackle the problem is at hand. "We are in the initial phase of confrontation. We hope that negotiations will be rapid and that the outcome will show that Italian banks, including their staff, are aware that we are becoming part of the European system," says Mr Barucci. Staff costs represented 72 per cent of the retail banks' total operating costs last year, so tight control is necessary.

Following the branch liberalisation, announced earlier this year, banks have a cost which will need closer attention than in the past. The central bank's 1986 branch plan, under which modifications to banks' networks were approved, was the last. Under the new procedure, banks' proposed changes to networks will be assumed to be approved, unless specifically rejected by the authorities. But expansion plans must be coherent with assets, economic performance and an orderly geographical development.

Branch liberalisation is a delicate matter, with the risk that banks will establish too many branches and that the consequent increase in fixed costs incurred will not be matched by revenues. The authorities hope that, when banks open new branches, these will be slimmer operations, using staff and technology efficiently.

Fortunately, results from Italy's retail banks are sufficiently good to permit investment, though improved profits will probably be one of the weapons that the trade unions will brandish at the bargaining table.

David Lane

FOREIGN BANKS

Alliances and niches tame the nightmare

THE FOREIGN banker looking at the Italian market is faced with a perplexing mixture of opportunity and nightmare.

The opportunity is obvious. Here is one of Europe's strongest and faster growing economies, served by an old-fashioned banking system which is so inefficient that it sustains no fewer than 1,100, mostly inefficient, banks.

Surely, the reasoning goes, all one has to do is to offer sophisticated international-style banking products – ranging from corporate finance for the family business, to interest-bearing current accounts – and Italy's myriad small businessmen will flock to one's door.

Look a little harder, and the nightmare begins to take shape. The 1,100 Italian banks do not suffer a penalty for their manifest inefficiency. Far from it – they are extremely profitable, despite the flight of money from bank balances into the bond market since the late 1970s.

When a foreign bank decides to take on this heavily regulated market on its own, the problems begin. Antiquated rules mean that foreign commercial bankers cannot lend money to corporate clients and expect to make a profit. Moreover, it is difficult to open branches at will, or to slim down the cost base by culling staff in the traditional Anglo-Saxon way.

It is important to distinguish between commercial banking and investment banking. Foreign investment bankers can – and many do – serve the big Italian corporates from London, with only a minimal presence on the ground.

But there is a giant, untapped market in serving the medium-sized corporate clients, not simply the quoted companies but the numerous prosperous family businesses which have grown up since the war, run by the next generation of Agnellis and de Benedettis, entrepreneurs who are now considering expansion overseas.

Getting at this market is a difficult matter, and some form of local alliance would seem essential. Thus a number of recent tie-ups between foreign and Italian banks: the link-up between Kidder Peabody and SOPAF; Midland Bank's purchase of a 45 per cent stake in Euromobiliare; and the joint-venture operation between Paribas and Banca Commerciale (Comit).

Other investment banks specialise quite nicely in niche markets such as government bonds (Nomura) or venture capital (Citicorp) and mergers and acquisitions (Morgan Stanley, Rothschilds, Citicorp again). By targeting one's market precisely in this way, foreign banks can mitigate the risks of operating in the Italian market.

For the commercial banks, it is a different matter altogether. A number – including Bank of America, which sold its Italian subsidiary to Deutsche Bank, Standard Chartered, Hongkong and Shanghai Bank – have been reining back their Italian operations or pulling out altogether. But no case better illustrates tha nightmarish aspect of this segment of the Italian market than that of Barclays, which has lost a ataggering £100m in Italy between 1985 and 1989.

Mr Richard Adams, chairman of the Italian offshoot of the British clearer, explains the problem in the following terms: constrained by Italy's restrictive banking laws, Barclays opened up a lot of "parabanking" businesses in areas such as leasing, factoring and consumer credit. The expansion – in tha early years of the decade – took place too rapidly and with inadequate controls. The result: massive trading losses and vast overheads. The latter could not be cut, because of Italy's protective labour laws.

Meanwhile, the basic corporate lending business could not be developed, for three related reasons. For a start, the Bank of Italy allows foreign banks to lend on a multiple of their own capital and not that of their parent company. Reserve requirements are high enough in any case. And the interbank market – on which foreign banks would normally rely for their funds – is "shallow and volatile", according to Mr Adams.

This market is subject to a 30 per cent withholding tax, which means that foreign banks simply cannot lend to Italian corporates. Funding for their Italian competitors is a lot cheaper, because of their access to a deep and stable ocean of retail deposits – and consequently the rates at which they can lend are a lot more attractive to the corporate client.

Mr Claude Parlange, managing director of Crédit Lyonnais' Italian operations, concedes that straightforward lending is not a profitable operation for his bank either, its money being made for a range of other services offered to Italy's biggest 200 companies. This analysis applies only to Lyonnais' own-grown operations in Italy. In May this year, France's second largest bank bucked the trend of disinvestment in Italy to buy control of Credito Bergamasco, a large northern private sector bank, for L340bn.

Lyonnais has not taken management control of Bergamasco, but Mr Parlange explains that the deal – representing 16 times the bank's 1986 earnings – gives the French access to that elusive and attractive middle corporate market served by Bergamasco's network of branches across prosperous Lombardy and Venice.

In the short term, sucb a deal allows Lyonnais to tap into the Italian banking market for as long as it remains protected. In the longer term, it is a strategic investment in one of Europe's most vital economies.

David Waller

SAVINGS BANKS

New flexibility ahead

RADICAL change threatens the staid conservatism of Italy's savings banks, the *casse di risparmio*.

Enactment of a bill prepared by former treasury minister, Giuliano Amato, two years ago is close at hand. When parliament gives approval, the way will be opened for a major reshaping of the savings banks, a category which held 28.6 per cent of total bank deposits and was responsible for 24.7 per cent of total bank lending at the end of last year.

At present the *casse* and the *banche del monte*, pawn credit institutions included in the 84-strong savings bank category, are foundations and associations belonging in the public sector and without shareholders. Under Mr Amato's proposals, the foundations and associations will be able to spin-off their banking activities into joint stock corporations, without incurring taxation on capital gains which arise.

"Foundations and associations will become holdings, public bodies with shareholdings in the banks. A favourable effect of the change will be that book values will reflect banks' real asset values. This will boost capital ratios and allow expansion," explains Roberto Mazzotta, who combines the chairmanship of Italy's biggest savings bank, Cassa di Risparmio delle Provincie Lombarde (Cariplo), with heading the Italian savings banks' association, ACRI.

Mr Mazzotta says that savings banks will enjoy greater flexibility. "As joint stock corporations, it will be possible for them to obtain stock-market quotation and fresh capital when required. In addition, mergers will be much easier."

Unsurprisingly, the Amato bill satisfies politicians, for whom the savings bank category provides a valuable instrument of patronage. Chairmen and deputy chairmen are appointed by the inter-ministerial committee for credit and savings (CICR), reflecting political equilibria; and local power balances in communes and provinces are maintained in overall board composition. With the continuation of the foundations and associations, the number of jobs in the spoils system will remain unchanged, even in the case of mergers.

"The foundations and associations will manage the distribution of dividends earned on their holdings in the banks, allocating money for civil, cultural and social purposes" says Mr Mazzotta, putting his finger on a key issue. Savings banks' charitable committees at present have the enviable task of distributing part of profits for local beneficence.

The Amato bill will effectively create a structure of charitable foundations, whose income, at least initially, will be derived from dividends on shareholdings in savings banks. Politicians will continue to have the financial means to tend their constituencies.

What kind of institution are the savings banks? Mostly constituted in the mid to late 19th century, the first were established in Venice, Padua and Udine in the early 1820s. "Their birth and early growth coincided with the process of Italian reunification. Characterised by strong local ties, the savings banks have firmly founded relationships with the family sector and its savings, and with small businesses," says Mr Mazzotta.

Social aims often underlay their establishment. The "promotion of savings and the spirit of thrift among the poorer classes, like farm labourers and tradesmen" was the institutional aim of the savings bank founded at Bra, in Piedmont, in 1842. Similarly, promotion of thrift was sought when Rimini's savings bank was established in 1838, though its founders also wanted to encourage local economic initiatives.

The Amato bill will effectively create a structure of charitable foundations

Revolutionary politics played a part in the birth of Florence's savings bank in 1829, established to compete with banks controlled by the Austrians and to help liberate the local economy from foreign influence. Closer to the philanthropic ideal, the founders of Ravenna's savings bank aimed to alleviate the conditions of the less prosperous by promoting savings and undertaking good works.

The savings banks' aim of assisting the less fortunate is a direct inheritance from the *banche del monte*. These have roots in the 15th century, when ecclesiastical orders established charitable pawn lending operations, the *monte di pieta*, to combat usury. Indeed, several of Italy's 75 savings banks sprang from, and subsequently absorbed, their *monte di pieta* parents.

Only nine *banche del monte* still exist independently. With the exception of the 63-branch Banca del Monte di Bologna a Ravenna and the 72-branch Banca del Monte di Lombardia (formed from the merger of the Banca del Monte di Milano and tha Banca del Monte di Pavia e Bergamo, two years ago), all are small. Indeed, the Rovigo bank, in north-east Italy, and the Siniscalco Ceci bank, in the Apulian heel, could not be smaller: each has one branch.

The savings bank category has one very strong point. "The *casse di risparmio* are small banks, weak on a national basis, but each is particularly strong in its own geographical area. In parts of Italy, savings banks have between 40 and 50 per cent of savings and customer lending. They are net lenders on the interbank market," says Mr Mazzotta.

Excessive reliance on local roots, however, can also be a weakness. Mr Mazzotta believes that the parochialism which characterises a good number of the *casse di risparmio* is a brake on development. Damaging local rivalries must cease if the banks wish to be effective in an increasingly competitive market.

Parochialism may also lead to difficulties with loan portfolios. In the case of the Cassa di Risparmio di Prato, there was excessive lending to the textile sector, and when business collapsed the savings bank was left with a mountain of non-performing loans. In Calabria, the savings bank had to be bailed out when the repercussions of political intervention in loan policy was felt.

But default is a wider problem. The savings banks' average rate is worse than all other bank categories. At the end of last year 7.6 per cent of loans were non-performing, compared to 6.4 per cent for the banking system overall. Nine savings banks had over 12 per cent default and a further 21 showed non-performing loans between 8 and 12 per cent of lending.

The *casse di risparmio* need to be able to offer a full range of services, but at present they are too small. Only Cariplo, with over 400 branches, ranks among the biggest Italian banks, though when the merger with Banco di Santo Spirito is completed, the capital's savings bank will move in the top league. Only two other *casse di risparmio* have more than 200 branches, and four between 100 and 200. Excluding the *banche del monte*, the average size of branch network is 51.

Mergers are needed, to give competitive size. Though the Amato bill still awaits approval, they already seem to be happening. In 30 years between 1956 and 1986, only four mergers took place. Since 1987, there have been seven, the latest occurring earlier this year when the Cassa di Risparmio di Verona Vicenza e Belluno took over the Cassa di Risparmio di Ancona.

"We are aiming at a very ambitious objective – the restructuring of the whole savings bank category," says Mr Mazzotta. He envisages a form of mega-merger, in which the new foundations will vest their shareholdings in a central organisation having the task of overall management of the savings bank sector.

David Lane

Mergers are suddenly in fashion, reports **Sari Gilbert**

Ambroveneto strides ahead

WITH THE approach of 1992 — seen by many as a litmus test for Italy's largely undersize banks — concern with size is spreading through Italy.

Headlines broadcast a succession of merger projects. Acquisitions are in fashion, and takeover plans are high on the dream agenda of top financiers and industrialists.

Although smaller savings or co-operative banks have been busy forming consortia and alliances, genuine bank mergers are not easy to negotiate in Italy, and acquisitions are likely to be the route to bank enlargement.

Nevertheless, a few mergers have taken place. The first was that finalised last May, in Rome, between Cassa di Risparmio di Roma and Banco di Santo Spirito. Shortly afterwards, another was agreed between Nuovo Banco Ambrosiano, one of Italy's largest private banks, and the latter's subsidiary, Banca Cattolica del Veneto.

On the acquisition side, the most talked-about deal was carried out by the internationally active Istituto Bancario San Paolo di Torino, Italy's most profitable public bank. This summer it purchased a 40 per cent stake in Crediop, the medium-term credit institution, whose major shareholder is the Treasury's deposits and loans bank.

For several years, the Bank of Italy has been urging credit agencies to prepare for 1992 by rationalising, increasing their efficiency and, where possible, their size. This suggestion fell on fertile ground at Cassa di Risparmio di Roma, the capital's major savings bank, where, in early 1988, director-general Cesare Geronzi and President Pellegrino Capaldo were turning considerable thought to the local Roman banking situation, characterised by a relatively narrow credit market, low efficiency and poor capitalisation.

The Cassa's managers concluded that its 15 per cent market share in its home region of Lazio (only 2 per cent nationally) was insufficient to allow the economies of scale and the allocation of resources necessary to meet long-term competition. They wanted a 30 per cent market share of deposits and a 20-to-25 per cent market share of loans. And the only way to attain such growth was through a merger.

□ Veteran financier Enrico Cuccia ... Last month, Ambroveneto was forced to fight off a takeover attempt engineered by him and the Fiat-dominated Gemina holding company. Mr Cuccia was also said to be behind a so far unsuccessful assault that Credito Italiano has been waging against Banca Nazionale dell'Agricoltura

At the same time, Iri, the giant state-holding company, was showing interest in selling off at least part of Rome's Banco del Santo Spirito. With L12,000bn in deposits, BSS is about the same size as the Cassa, but it had a high percentage of bad or non-performing loans, was overstaffed and under-capitalised. Divestment would provide Iri with new capital that could be used to recapitalise another suffering Iri bank, Banco di Roma.

For Mr Geronzi and Mr Pellegrino, who had launched a first bid for 33 per cent in April 1988, BSS was the obvious partner. The 51 per cent stake bought last year means that, together, the two banks will have 440 branches and L30,000bn in deposits. When the technicalities of the merger are completed, by the end of 1990, it will be by far the biggest bank in Lazio and seventh nationwide.

Opponents of the scheme — some BSS managers and, at the start, the unions — held that a merger between two banks of similar size in the same region would be too costly. But Geronzi and Pellegrino insisted it was complementarity, not diversity, that would provide major economies of scale and synergies.

"We asked ourselves whether, with the approach of 1992, small was still beautiful," says Mr. Geronzi. "And the answer we came up with was that, in the near future, size would become crucial if we wanted to respond to competition and remain profitable."

Although the Nuovo Banco Ambrosiano already controlled a 50.62 per cent share of the smaller Banca Cattolica del Veneto, the reasons behind the merger were similar. The enlarged bank, renamed Ambroveneto, can now meet the post-1992 challenges. "With sufficient productive and competitive capacities," says Ambroveneto chief Giovanni Bazoli, the merger's architect.

Indeed, with deposits of over L29,000bn and 337 branches, Ambroveneto will overtake Banca Nazionale di Agricoltura as the country's largest private bank. It became so attractive that, last month, Bazoli was forced to fight off a takeover attempt engineered by veteran financier Enrico Cuccia and the Fiat-dominated Gemina holding company, which controls 14.6 per cent of the northern Italian bank.

The complicated plan (which failed when Bazoli convinced Crédit Agricole to pick up a 13.34 per cent stake in Ambroveneto, held by Banca Popolare di Milano) was for the powerful Generali insurance company, a Gemini ally, to buy out the Popolare holding. With almost 28 per cent between them, Gemina and Generali would have had enough control to eventually sell the bank to Italy's most prestigious bank, Iri's Banca Commerciale Italiana (Comit), as a prelude to privatising it.

Mr Cuccia was also said to be behind a so far unsuccessful assault that Credito Italiano has been waging against Banca Nazionale dell'Agricoltura.

San Paolo's goal in buying into Crediop was to lay the basis for becoming Italy's first "polyfunctional", or universal, bank; and the merger was backed by both the Treasury and the Bank of Italy. The operation involved San Paolo's picking up the stakes in Crediop — 40 per cent of the institute's capital — formerly held by INPS, the state pensions agency, and INA, the state-owned insurance company.

Part of the San Paolo-Crediop appeal to Italian monetary authorities lies in its modalities. The funds from the sales are to be used towards the much-needed capital increase of the troubled Banca Nazionale di Lavoro, of which INPS and INA are also shareholders. BNL, currently trying to deal with the consequences of this summer's scandal over unauthorised loans to Iraq, is Italy's largest bank. However, it is suffering from low profits and, above all, severe under-capitalisation. The Treasury owns 74.5 per cent of BNL and the minister, Guido Carli, has promised to see it privatised. But, at the moment, the main concern is finding capital of at least L2,000bn.

Last spring, some bankers were speculating about merging BNL with Comit, to produce a giant bank with deposits of over L100,000bn, able to compete with the largest foreign institutions. But, for the moment, this appears to be a pipe-dream. More realistic are the smaller operations, like the minority stake recently bought by Cariplo, the wealthy Lombardy savings bank, in the Cassa di Risparmio, of Spoleto.

Cassa di Risparmio di Roma has also made acquisitions, buying 40 per cent stakes in the Casse of Orvieto and Loreto, in central Italy, and involved in negotiations with other small savings banks.

Imi, the state-owned medium and long-term credit institute, is also shopping around for e retail bank. Imi already owns insurance companies, mutual funds and Italy's largest investment company, SIGE. But it feels it needs a commercial bank to be complete. The two most likely targets are Banco di Napoli and Banco di Roma. Bank of Italy officials appear to favour an Imi-Banco di Roma connection, on grounds that this would be the best way to help the under-capitalised and unprofitable credit institution. But some bankers and politicians would prefer to see a "supermerger" between the three banks of national interest, Banco di Roma, Comit and Credito Italiano.

Profile:

CESARE GERONZI

A level head trusted by both parties

Cesare Geronzi: successfully engineered Italy's first major bank merger

MR CESARE Geronzi, the Roman banker, does not like his photograph to be splashed around. But if he is little seen, you can be sure that the 54-year-old director-general of Rome's principal savings bank, the century-and-a-half old Cassa di Risparmio di Roma, has no trouble in being heard.

After successfully engineering Italy's first major bank merger, last May, Mr Geronzi also became managing director of the 400-year old Banco di Santo Spirito.

When the two banks complete their merger — probably by the end of 1990 — the tall, white-haired, former Bank of Italy official is slated to become managing director of the new and powerful credit institution, which will be Italy's seventh largest bank. In the meantime, the combined weight of his two posts adds weight to his counsel.

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Most of the Italian banking community was taken by surprise when, in April 1988, the Rome Cassa launched its bid for Santo Spirito. But intimates of the bank's headquarters, in the 17th century Palazzo Sciarra, only two blocks from the Trevi fountain, say anyone who had paid attention ought not to have been surprised.

Although the Cassa has its problems, since Mr Geronzi's appointment as director-general, in late 1982, there has been rapid growth and a transformation. Indeed, one of his first moves was to follow a Bank of Italy suggestion, and modify the Cassa's statute, adding efficiency, profit and cost-containment to the charitable concerns set down in its 1836 charter.

At the Rome Cassa, Mr Geronzi was called upon to make order out of chaos. Activities have been rationalised and computerised, and personnel subjected to intensive retraining courses. At close to L300bn, annual gross profits were high enough to allow substantial self-financing and to enable the bank to become one of a handful in Italy actually in line with the central bank's new stricter assets and risk ratios. Results were so good — annual net profits reached L85bn in 1987, and L97.2bn in 1988 — that geographical expansion out of the Cassa's native Lazio was probably inevitable.

A 1987 rescue operation of the troubled Cassa di Risparmio del Molise brought in 27 new branches. And other branches were opened in the Milan area, the Abbruzzi, Campania and Apulia, to bring the total to 187.

With an eye to the promise of post-1992 liberalisation, Mr Geronzi also started to look abroad. A majority share has been purchased in a small London bank; the profitable Paris-based Banque Générale du Commerce (with branches in Nice, Marseilles and Cannes) was bought; and a small bank is Barcelona is being purchased. A representation office has also been opened in Frankfurt.

Born in the Castelli hills, outside Rome, Mr Geronzi studied economics and commerce at Rome University. In 1960, he passed the exam for the central bank. Assigned to its foreign department, he trained in Geneva, Paris and Washington (at the Federal Reserve), and quickly made a name for himself.

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In 1968, he was appointed to head the Bank of Italy's foreign exchange office. As chief foreign exchange manager, he worked closely with the Bank's four-member directorate and specifically with the governor — first Guido Carli (now Minister of the Treasury), then Paolo Baffi, and later with Carlo Azeglio Ciampi, the present governor. "It was the best school of decision-making I could ever have attended," he recalls.

Known for both his market wisdom and level-headedness, in late 1980 Mr Geronzi followed former Bank of Italy director-general Rinaldo Ossola to the troubled Bank of Napoli, where Mr Geronzi served as deputy director-general. His reputation was growing, and in late 1982 the board of administration of the Cassa di Risparmio di Roma, which was looking for technical expertise, not political affiliation, offered him the post of director-general.

Italy's casse di risparmio were born as non-profit institutions, and because of the Cassa's ongoing charitable activities in the Rome area, its top officers are always influential. But Mr Geronzi has also been good at forging relationships with the powers that be. He is said to be trusted by both of Italy's top governing parties, the Christian Democrats and the Socialists. And because of his practical and conciliatory nature, despite the strains caused by the Santo Spirito merger, he has been able to maintain excellent relations with the banking unions.

Until it was finally ratified last May, by Santo Spirito's board of administration, the merger had caused considerable controversy. But Mr Geronzi, who continues to enjoy the confidence of the Bank of Italy's top management, was unflappable. "We're going ahead with this merger," he said, "because it's an idea whose time has come."

Sari Gilbert

THE SOUTH: the climate is good — but not for banking, and . . .

Culture widens the efficiency gap

OFFICIAL concern about the financial system in the *mezzogiorno*, the south of Italy, was underlined earlier this year. The Bank of Italy's annual report, published at the end of May, dedicated a section to the *mezzogiorno's* economy and the difficulties faced by banks operating in the south.

"The gravity of economic imbalances is known," Carlo Azeglio Ciampi told the central bank's annual meeting. Southern per capita GDP is only 55 per cent of the centre/north, and the ratio of per capita family consumption only 66 per cent. "Over recent years, the industrial productivity gap has widened rather than closed. Added value per worker in the south is 20 per cent lower than in the centre/north," said Mr Ciampi.

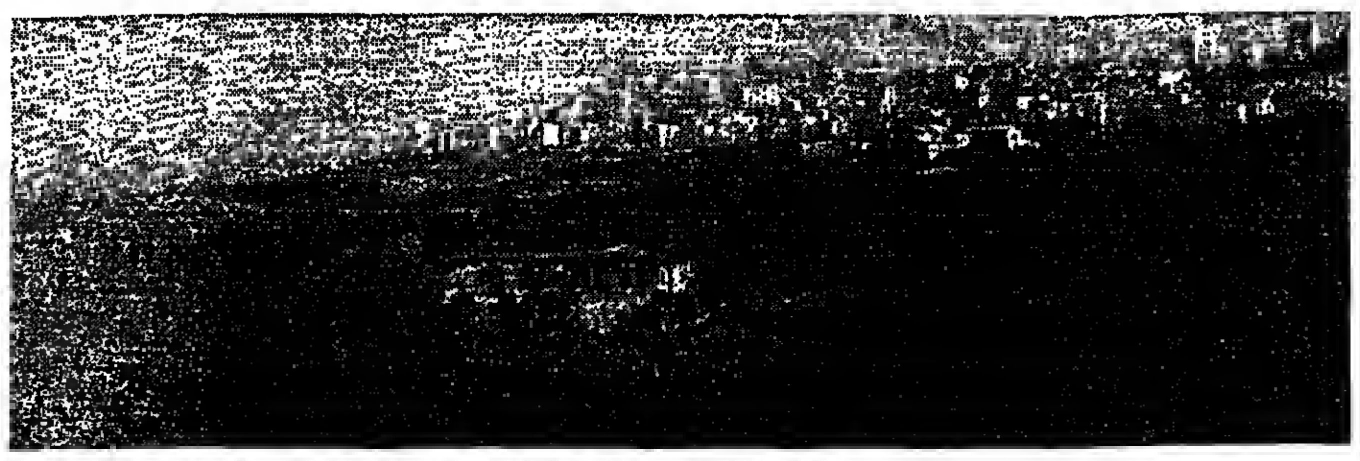
He noted that production efficiency was lower in the *mezzogiorno*. Business is less profitable. Measures like gross operating margin and return on equity show that southern firms lag behind those in the centre and north. Latest labour figures show southern unemployment of 21.3 per cent, against 5.8 per cent in the north.

Clearly, southern banks operate in a less favourable economic climate than banks in northern Italy.

"The limited presence of successful large and medium industrial groups prevents balanced lending. Our client base is fragmented and heavily biased towards small firms" says Luigi Coccioli, chairman of Banco di Napoli, one of the *mezzogiorno's* two large banks.

Banco di Sicilia faces similar problems. "The southern economy needs assistance. Banks must encourage local business, even though giving credit is riskier than to efficient industries in developed areas. Risk is one of the burdens which southern banks must bear," says Giannino Parravicini, Banco di Sicilia's chairman.

Mr Coccioli agrees that higher risk is a feature of serving the south. "This is seen in the significant difference between default in the north and south," he says. Indeed, figures from the Bank of Italy show that the average ratio of default to loans was 12.5 per cent in southern banks last year, compared with 6.5 per cent in central/northern banks.



Agrigento is among the provinces where savers have a choice of 51 local banks

The gap has widened during the 1980s. Ten years ago the difference was 1.4 per cent.

"Higher interest rates are a reflection of the higher risk," says Mr Coccioli. He mentions, however, that from 1983 to 1987 Banco di Napoli followed a policy of lending at lower rates in the south, in order to encourage small companies and young businessmen. "Unfortunately we were unable to continue, and had to lift our rates to realign with other banks."

Average interest rates given on deposits are not significantly different between northern and southern Italy, firms and families in the *mezzogiorno* earning about 0.3 per cent less than their counterparts in the centre and north. But borrowers pay considerably more on loans, the Bank of Italy's figures revealing a 2 per cent difference.

This interest rate gap allows southern banks to show up better on interest and intermediation margin than central/northern banks. However, when local inefficiencies of operating and staff costs enter the equation, southern banks return markedly inferior results, with gross operating profit equal to 1.1 per cent of managed funds, compared with 1.5 per cent achieved by central/northern banks. On the bottom line, net profit was less than 0.3 per cent of managed funds in 1987, against 0.5 per cent in the centre/north.

The efficiency gap owes much to the large cultural difference between north and south. "Southern instinctiveness contrasts with the teutonic northern approach. It is interesting that, in the *mezzogiorno*, Banca Commerciale Italiana becomes similar to Banco di Napoli, while we become like Banca Commerciale in the north," says Mr Coccioli, noting how banks adapt to their environments.

The Bank of Italy has been encouraging expansion of central and northern banks in the south

Among the many gaps which separate the economies and banking systems of northern and southern Italy is the capitalisation of state controlled banks. The balance sheets of both Banco di Napoli and Banco di Sicilia, which have the status of public law credit institutions, show them as poor relations, compared with northerners like Istituto Bancario San Paolo di Torino and Monte dei Paschi di Siena.

Both the large southern banks fail to meet the Bank of Italy's capital adequacy ratios. "We are currently between L300bn and L400bn short," admits Mr Coccioli, though the Amato bill now before parliament should provide L800bn.

Banco di Sicilia is even more under-capitalised. "In spite of increasing our capital base from L345bn in 1979 to L1590bn last year, our shortfall still amounts to between L400bn and L450bn. During this period, capital injections from the Treasury have been negligible. In the 1980s, no business has been able to satisfy growing capital needs from cash flow. Yet we have been forced to do so," says Mr Parravicini. Ha considers inadeqnate tha L563bn allocated by the Amato bill. "It will cover the shortfall but not allow expansion."

Working in a difficult economy, and beset by problems of internal efficiency and capital shortages, the two lerge southern banks are not helped by operating in the home territory of organised crime, the Sicilian mafia, Neapolitan camorra and Calabrian 'ndrangheta.

However, both large banks say that coping with criminal infiltration is not a major problem. "Big banks are able to erect effective defensive systems," says Mr Coccioli. "But criminal infiltration can affect small banks where family ties and friendships influence management's judgment."

At the beginning of the year, Mr Ciampi told the parliamentary mafia commission: "The capacity of criminal organisations to enter the financial circuit is greatest in those parts of the system with weak technical characteristics, organisational shortcomings and inadequate internal controls."

The central bank's governor was probably thinking abont tha *mezzogiorno's* numerous small banks, and nowhere is the presence of small banks more evidant than in Sicily. The Associazione Bancaria Italiana (ABI) yearbook reveals that the province of Palermo is home to 20 banks and Catania to 17. In the mafia heartland of Trapani, in the west, and the Caltanissetta and Agrigento provinces in the centre and south, savers have a choice of 51 local banks.

Vulnerability of small sonthern banks explains the efforts of the central bank's *Vigilanza*. Of 571 ordinary inspections undertaken in 1986-1988, 100 were in Sicily, Calabria and Campania. Specific interventions affected 105 banks over this period, with 48 in thesa three *mezzogiorno* regions being called to account for "anomalous situations". Specific interventions involved 10 per cent of banks nationally, but the figure was 30 per cent in Sicily, 21 per cent in Calabria and 15 per cent in Campania.

The Bank of Italy has been encouraging expansion of central/northern banks in the south, ostensibly because *mezzogiorno* business needs their skills in order to develop, and because a small local banks will be stimulated to greater efficiency and innovation. Left unsaid is the view that large central and northern banks are better equipped to deal with the mafia in its different *regional costumes.*

Public-sector Monte dei Paschi di Siena and Istituto Bancario San Paolo di Torino have taken the hint. Others, like the strong Cassa di Risparmio di Verona Vicenza e Belluno, say they have no leanings towards the south. With the difficulties faced by banks in the *mezzogiorno*, it is easy to understand reluctance to venture south.

David Lane

MR CIAMPI'S 10 YEARS

Intellectual honesty wins high regard

"The Governor is 10 years old but doesn't look it"

THE HEADLINE on an Italian editorial about Carlo Azeglio Ciampi sums up many people's views of a man who was next to unknown when he became Governor of the Bank of Italy in 1979, and wbo, over the past decade, has gone beyond his institutional role as the architect of Italian monetary policy to become the guardian of the economy as well.

As governor, Mr Ciampi has so distinguished himself for independence from Italy's fractious, and often inexpert, political powers as to have created a small groundswell of opposition that would like to see the *central bank at least brought* to heel.

A recent "index" of central hank independence, worked ont by Harvard economist Alberto Alesina, suggests that the Bank of Italy is only the most independent of the industrialised world'a less dependent central banks. It cannot change tha discount rate without the consent of the treasury minister; and, despite the 1981 "divorce", which freed the central bank from the obligation to buy the Treasury bills that tha Government is unable to sell at auction, it is still obliged to fund the Treasury account at the Bank to a degree that many consider excessive.

Nevertheless, as Mr Alesina admits, the Italian central bank "enjoys broad autonomy, and is a strong and respected institution".

It is one of the few policy-making bodies in Italy that can be said to be substantially immnne to the political appointments, influence-peddling and deal-making that undermine much of the Italian body politic.

In recent months, the glare of publicity, to which the unassuming Mr Ciampi's has long been subjected, has lessened. This summer, as the 68-year old Mr Ciampi was approaching his tenth anniversary, a new government was formed, with the treasury ministry going to the strong-willed, highly-respected and outspoken former Bank of Italy governor, Guido Carli, who has clear ideas and the expertise to back them up.

Mr Carli's appointment was certainly a feather in the cap of Prime Minister Ginllo Andreotti, who could point to a first-rate appointment in one of tha cabinet's most sensitive posts. But, sinca experts agree that the autonomy of the Bank, depends in part on the interaction between the governor and the treasury minister of the moment, the appointment may have been partly designed to redress the balance of power in favour of Italy's politicians.

Mr Ciampi was appointed governor at a juncture seen as crucial for the Bank's future. He replaced the late Dr Paolo Baffi, Mr Carli'e successor, who resigned in the aftermath of a scandal in which politically-motivated magistrates, acting for obsure reasons, sought to undermine the moral authority of the Bank, by filing trumped-up charges of corruption against Mr Baffi and Dr Mario Sarcinelli, then a high-ranking Bank official.

At the time — Mr Andreotti was prime minister then, as wall — Italy's politicians sought to impose an outside, politically-designated candidate. And it was only the politicians' inability to agree which allowed the Bank to continue its recent tradition of inside appointments. Mr Ciampi, who joined the bank in 1946 and rnse through the ranks, was promoted to governor from his post as the Bank'a director-general.

Sari Gilbert assesses the achievements of the central bank under its independent minded chairman

Over tha last decade, the Bank of Italy has had to deal with a variety of major problems: the stability of the lira, raging double-digit inflation (until 1985), and the gaping public deficit. Although criticised for an nnduly tight embrace of the banking system, the Ciampi central bank has won high marks for intellectual honesty.

There are three areas in which has hroken new and important ground:

■ The Ciampi administration has worked hard to win acceptance in Italy'a courts and political councils for the concept of the bank as enterprise. Thanks to Ciampi, it can be said that the deeply-rooted notion of a bank as a public entity with political responsabilities to disburse credit to this or that region of the country or sector of the economy has been replaced by the view of a bank — sanctified in rulings in 1982, 1987 and 1989 by the Court of Cassation — as a profit-making and efficiency oriented enterprise.

■ Following entry into the European Monetary System, Mr Ciampi was determined to end the earlier trend of compensating for inflation with devaluation. During his governorship, the Bank has successfully maintained e stable exchange rate, combined with a restrictive, anti-inflationary monetary policy. This reversal of earlier policy — an easy monetary policy, with negative interest rates — contributed to tha restructuring of Italian industry over the last decade, by convincing industrialists that, if they wanted to be competitive, they could not depend on exchange rate variations, but would have to cut costs.

■ Under Mr Ciampi, tbe Bank of Italy has been directing a major effort, designed to reform the Italian financial system and make it modern, stable, responsive and efficient enough to operate in tomorrow's European single market.

The prnjects successfully backed by the central bank include the establishment of investment funds, the introduction of merchant banks and other financial intermediaries, creation of an overnight market and of a telematic market in treasury bills, reform and snpervision of tbe stock exchange and privatisation of Italian public banks.

Althougb they profess mutual respect, Mr Ciampi and Mr Carli have different views on several sensitive issues.

On one of these, separation of hanks and industry, Mr Carli, sansing the general trend, appears to have given ground. More potentially divisive is the view on the 1936 banking law, which Mr Carli would like to replace and Mr Ciampi, mindful of the implications for the Bank of Italy's own power, wants to preserve.